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Regions Financial Corp. (RF)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Dana W. Nolan

Executive Vice President-Head of Investor Relations, Regions Financial Corp.

Good morning, and welcome to Regions 2019 Investor Day. My name is Dana Nolan, Head of Investor Relations. On behalf of the Investor Relations team, we thank you for attending today and thank you also to those who are participating via our live video webcast.

A few housekeeping items before we kick off, similar to our approach in 2015, hand-outs will not be provided rather materials for each presentation will be posted to the IR section of regions.com, just before each presenter and as you can see, we've got plenty of charging stations at each table.

As you can tell from the agenda, we have a full schedule today. But we have built in three Q&A sessions along with a couple of breaks and we expect to wrap up sometime around 12:30. A lunch reception will follow the program. Keep in mind that, that's a really good opportunity to connect with our management team. On that note, on our website, you can find bios of all of our presenters, as well as other members of our management team, in attendance today. And then finally before we begin, let me remind you of our forward-looking disclosure statements. These statements cover our presentation, Q&A, and other discussions throughout the day.

And with that it's my pleasure to introduce John Turner, our President and CEO.

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

Thank you, Dana. As Dana said, I'm John Turner, President and CEO. And I want to welcome all of you and say good morning welcome to our 2019 Investor Day. I'm joined today by members of our management team and our board of directors. And on behalf of everybody at Regions, I want to thank you for your interest in our company and thank you for being with us here today.

We last held Investor Day in November of 2015 right here in this very room. And at that time, we told you that Regions had generally recovered from the impacts of the Great Recession that we were investing talent and building a sound risk infrastructure, and that we were beginning to focus on growth. We set out some three year goals and objectives anticipating that rates would rise and that the economy would improve. And while the timing of all those things didn't work out exactly as we had expected, we made adjustments and I'm really proud to tell you that we achieved all of the goals that we set out, delivering an adjusted return on average tangible common equity of 16.5%, an adjusted efficiency ratio of 59.3%, and adjusted earnings per share growth of 24%. We're proud of these achievements, and as a result of them, confident in our ability to deliver on the goals and objectives that we plan to set out for you today.

The last three years have been marked by really solid execution, as we have grown and diversified revenue, managed expenses well and effectively deployed our capital. We've grown our customer base, increased net interest income and non-interest revenue. We've improved our presence in markets and we have significantly improved, we think, the quality of our businesses. We've also simplified the organization. We've closed a number of branches. We've reduced square footage. And importantly, we delivered positive operating leverage for three years in a row.

We've been particularly focused on risk adjusted returns. And frankly focused on both elements of that equation, risk and returns. We've been de-risking certain portfolios and asset classes like multifamily investor real estate, energy, and medical office buildings. At the same time, we've exited businesses that we deemed not profitable; insurance, as an example, and we recently announced our intention to exit the indirect auto business. We recycle capital within our Corporate Banking business. Again exiting over $1 billion in credit relationships, probably closer to $2 billion, reallocating that capital back into better opportunities, like mortgage banking and capital markets to drive revenue and increases. We've also been focused on improving returns through better pricing and building broader and deeper relationships.

As a result of our efforts, we delivered over the last three years a 72% total shareholder return, ranking us amongst the highest in our peer group. We think our focus on the fundamentals, on improving execution, and on operational excellence has laid the foundation for us to continue delivering outstanding results. And as we look forward, we think we have still lots of room for improvement, and the ability we believe to deliver outstanding results for our shareholders. And again, we'll share that with you today.

So, as we think about our business and what makes Regions different. First, it is our loyal low cost solid deposit base. We're in some really good markets, and we have outstanding deposit gathering capabilities that we think we can leverage across those markets. We're committed to focusing on returns and profitability, and had built a disciplined culture and I think we've demonstrated that based upon some of the business decisions that we've made over time. We've enhanced our risk management infrastructure and are committed to reducing the volatility in our business. We're not any longer going to be an outlier. Barb Godin will talk about that a bit today.

And then we think our Simplify and Grow continuous improvement initiative provides a tremendous opportunity for us to continue to improve our business, make banking easier for our customers and drive our efficiency ratios down over time.

So as we begin to think about our 2019 through 2021 plans, doing that in what is a pretty interesting time in our business and it probably got a little more interesting for us over the last 30 to 45 days, first of all, we think the economy is still sound. As I travel across our footprint and talk to customers, they are still very optimistic about their businesses. Many had the best years they ever had in 2018 and their pipelines are still good. We have benefited at Regions from rising rates and from an industry leading deposit beta. Now clearly rates are moderating and so that's a challenge that we have to think about.

Credit quality has been excellent and has contributed to earnings growth across the industry. As we begin to reach the end of a very long economic cycle, we have to think about credit normalizing and how we react to that. Technology is impacting our business at an ever increasing rate. Our largest competitors are investing a tremendous amount of money in technology, and we're often asked and I'm confident we'll be asked again today the question about scale. We believe we have an adequate amount of scale to continue to compete and meet our customer's needs and capabilities, and we'll talk about that today. Likewise, nonbank funds and financial technology companies are challenging the very essence of our business model. We have to think about how we respond to that. And the regulatory environment is improving for sure, but I would tell you that expectations of banks are still very, very high and we will anticipate that going forward.

So as we think about our plans, our business model is not complex, and we would say our plans are pretty simple and straightforward. We want to lean into our strengths. We want to continuously improve through investments in innovation and technology, adding talent and capabilities along the way. We think that positions Regions really well for success.

Fundamentally, we think our business is a relationship business. It's still about bankers, equipped with really solid technology who are building trusting relationships with customers by the quality of the advice and guidance they provide, and they do that across the many communities that we serve.

Now we're in some businesses that operate on a national level and we will continue to be in those businesses. They typically are around, built around our specialized capabilities. But fundamentally again we think our businesses are a relationship business; it's about building relationships with customers within our 15-state footprint; relationships that are profitable, relationships that are sound, and it will produce consistent and long-term results.

So our commitment to customer service, the quality and the way that we work together, the strength of our culture, shared value and Regions360 and the markets that we operate in, we think really differentiate Regions from our competition. And when combined with the sound risk infrastructure that we have been building since the Great Recession, we think we're well positioned to have a lot of success being a community centered regional bank.

Now customer service is the hallmark of our business. We're really good at it. We're consistently rewarded but we've consistently recognized by third parties for our intense focus on customers. We received numerous awards and Scott Peters will talk about that a bit. But we're also rewarded by our customers with very long-term loyal relationships, tremendous brand favorability, and consistent growth.

Now our customers are increasingly wanting more speed. They want more reliability. They want more convenience. So how do we respond to that? We know they're banking with us across multiple channels at an increasing rate. In fact, over 60% of our customers today actually use multiple channels. We'll have over 400 million log-ins to our mobile banking platform, over 300 million log-ins to our online banking platform. We'll do 100 million transactions in our branches, about 75 million transactions through ATMs and have over 80 million calls into our call center.

So clearly customers are using the bank across all five channels. And we wanted to have the same great experience wherever, however, they choose to do business with us. In order to do that, we've got to have great technology. And we think that the investments we're making, the quality of the team that we're assembling and our ability to operate in an agile fashion if I can use that word across, nimbly across a very flat organizational structure, will allow us to continue to deliver products and capabilities to meet customer needs and compete with our larger bank competitors.

We have a strong culture that's founded on our mission to serve customers and to make life better. We believe in the concept of shared value, that's businesses only done well when all parties benefit: our customers, our shareholders, our associates, and our communities. Our culture is founded on honesty and integrity, and the belief the trust is earned and shared by all.

We're a relationship bank, our go-to-market strategy is built around local bankers working with industry and product specialists, like our health care team, like capital markets, like wealth bankers, like treasury management specialists, to deliver the entire bank as a team. The way that we work together as a team we think really differentiates Regions. So we are continually recruiting a diverse group of bankers who we believe can give great advice to our customers and again build trusting relationships across the communities that we serve.

We operate in 15 states in the Southeast and Midwest. 86% of our deposits are in seven southeastern states, Alabama, Mississippi, Louisiana, Florida, Georgia, Tennessee, and Arkansas. We operate in 176 distinct MSAs and 90 counties that don't actually have an MSA. We're the largest bank in the Gulf South [ph] because we're headquartered (00:13:19) in the Gulf South I should say. We have about 70% of our deposits are in markets where we have top five market share or better. And just, coincidentally 70% of our deposits are in markets where we don't believe we have any significant money center bank competition. So the core of our business in these seven southeastern states very stable provides for what we believe can be a consistent annuity like earnings capacity.

At the same time we're in some really good markets, some faster growing markets what we call growth markets juxtaposed against our core markets. And in these markets, we look at our top 30 markets by deposit size, roughly 60% of those are growing faster than the average national growth rate and about 15 of the 30, we have again top five market share or better. We're investing in markets like Atlanta, Orlando and Houston where we think there's a real opportunity to grow.

And the demographics of our markets are exceptional, roughly 42% of all the jobs created in the U.S. since 2009 were in our footprint, 51% of the population growth over the last 10 years has been in the Southeast and the Midwest. 35% of the nation's GDP is in our footprint. And roughly 6 out of 10 locations that are most desirable for retirees are actually also in our footprint. So, we think the combination of core markets providing great stability and our very loyal low cost deposit base, coupled with the growth markets that we're in, provide a real opportunity for us to consistently build and sustain our business over time.

Our deposits are the real value of our franchise, roughly just over two-thirds of our deposits are retail deposits in nature. They're very granular, very loyal, about 60% of those retail deposits are in accounts that have been at Regions for more than 10 years. So, super loyal customers. We believe primacy is really important and as a result – so our view that about 93% of our consumer checking customers actually have their primary checking account with Regions. We've been growing the business. So if you look at just 2018 consumer checking accounts are up about 1.4%, consumer demand deposits up 4.2%, and consumer savings up 5%.

So if you focus on those non-interest sensitive core deposits, we've been growing them consistently. In fact we've grown consumer checking accounts now for six years in a row, despite the fact that we've closed over 250 branches since 2014.

We think that is a proxy for demonstrates our ability to continue to grow our business, grow the core of our business which is our consumer checking business and really important to us. Importantly, about half of the accounts that we opened over this period of time are for individuals who are 30 years of age or younger. So we are also – while we have this great loyal customer base, we are appealing to the younger crowd and seeing that through consistent mobile adoption and use of other channels.

I talked about risk management and we're committed to developing a strong risk culture. Since the Great Recession, we've invested in talent and in building out our infrastructure. We've improved our governance, our policies, our procedures, all grounded in a comprehensive risk appetite that guides our activities every day.

We're a relationship bank, I said that earlier, focused on returns. We're not interested in growth for growth's sake. And as you'll see later today, we don't have to grow a lot, to achieve what we think are very reasonable returns. And so as a consequence, we're going to stay committed to the fundamentals of our business, client selectivity, sound underwriting, proactive credit servicing, at the core of what we do to deliver consistent and sustainable results over time.

I talked about some growth markets and with growth comes volatility. We've certainly seen that. It's important to us that we limit the volatility, that we deliver consistent and sustainable results. And so we have built out again a risk culture that we think will help us do that. We believe in balance and diversity, a lesson, a hard lesson that we learned as part of the Great Recession. And so we manage our exposure with a comprehensive framework of concentration risk management, managing exposure in geographies and portfolios in industry sectors. And we have a whole scheme of early warning indicators that dictate our portfolio management activities and Barb Godin will talk a bit about that later today.

In late 2017, we announced our Simplify and Grow initiative, and it was in recognition of the fact that while we were benefiting from rising rates and good credit quality, those things would come to an end. And when they did, what were we going to do? We knew we had to be operating more efficiently and more effectively, and so Simplify and Grow, not a program. It's an initiative. It's about how do we create a culture of continuous improvement. How do we get better every day? And so we focus on how we make banking easier. How do we accelerate revenue growth and how do we drive efficiency and effectiveness through improved processes. That we've made a lot of good progress. We've streamlined the organization. We've reduced spans and layers. We have effectively over the time created greater lines of accountability and responsibility which has been very helpful in decision making.

We've grown revenue over the last year. We've decreased cost while investing in talent and technology. And again we think we're just beginning to see the benefits of our work. We have over 30, I think close to 35 initiatives still underway and as John Owen will talk about later today, there's, we think, a lot of benefits still to come from our efforts.

Key to our Simplify and Grow initiative is to have an effective technology strategy and again we're focused on four key areas. First, we want to always focus on how do we make banking easier for our customers. So whether our associates are working on our digital banking platform, mobile banking or online banking, whether our teams are developing a fully digitized consumer lending process, we're always talking about how do we make it easier, how do we make our customer experience better for our customer.

We also want to use technology and data and analytics in particular to help inform our interactions with our customers. We want to personalize those interactions and get the best or the most of the opportunity we have whether customers in a branch, in the call center, or a commercial or a wealth banker, with making a face to face call on that customer. How do we use data and analytics to gain insights that help us deliver the best experience for that customer when we're in front of them.

We want to use artificial intelligence in places like BSA, AML and the call center to help reduce costs, to improve our processes and ultimately improve the overall quality of our work. And finally, we'll make investments in our core infrastructure using outsourcing, APIs in the cloud, to drive down the cost of technology while continuing to improve it. We think about it as a continuous cycle of reinvestment. As technology costs come down, we can reinvest in more technology, which we think again helps us as we think about how do we compete against some of our larger competitors.

We're going to continue to make investments in our business, in talent, in markets, and in technology. We're hiring bankers in corporate banking and commercial banking, in wealth banking, specifically in markets like Atlanta, Orlando, and Houston where we're also building out a thin branch network to take advantage of the opportunities we think we see there. We're investing in St. Louis and other markets where we think we can either change the complexion of our footprint and significantly improve it or fill a gap that we have somewhere. And Scott Peters will talk about our retail network strategy, which we think has been very effective and has a tremendous amount of potential for us as we think about how we grow. And then again, we're going to invest in technology in the various areas that I talked about a minute ago.

We're focused on improving the health of our communities. We think that our commitment and the work we do here aligns with our values, helps us create share value, which is again focused on customers, communities, associates, and shareholders. At the end of the day we have created a – formalized a charitable foundation to help us be more [ph] intentional (00:23:30) about our giving. We believe if we focus on economic and community development on education and workforce readiness, and financial wellness that we can impact communities which ultimately is good for our business. Our business can't be any better than the quality of communities that we operate in. And so this is an important focus for us.

Our capital priorities haven't changed. We want to continue to use capital first and foremost to support organic growth. We want to pay a sustainable dividend of somewhere between 35% and 45% of earnings. We want to continue to make investments, and we think about that on two dimensions. Investments should be, investments that help us – well, first of all, think about it on two dimensions: non-bank investments, and bank investments. We've been making over time some non-bank investments, buying mortgage servicing rights, acquiring M&A capabilities, focused on growing and diversifying revenue, filling product gaps, and meeting customer needs. And we'll continue to do that. They're not big opportunities but they are helpful.

With respect to bank M&A, we've been real consistent and saying that we think market conditions are not right for us to be active, first and foremost, and as importantly if not more importantly as you'll see, we go through the day, we believe the opportunities that we have to execute our plan will result in our delivering outstanding returns for our shareholders. Anything that would distract us from executing that plan, we think would be a mistake. M&A is very disruptive. And as a consequence, we were involved in bank M&A activity today. We think that would again would take us off what we believe is a very good plan, and we hope you'll agree after you've had a chance to see it today. And then finally, we have capital that we're not deploying. We'll return it to our shareholders, consistent with the approach we've taken over the last few years.

So in summary, we think we've got a really solid loyal low cost deposit base that is the real value of our franchise. We have great deposit gathering capabilities and we can and will leverage those as we need to, to continue to support growth and liquidity needs in our business. We've been focused on profitability and risk-adjusted returns. We have as a result of that, made intentional decisions about – that have, we think, improved our business and we'll continue to do so. We've enhanced our risk management and governance. We're not perfect but we're a lot better. And we're going to continue to improve. We're not going to be an outlier. And Barb talk about that again later today.

And then finally, we think the work – the opportunities that we have as a result of our work around Simplify and Grow to improve our processes, to make banking easier for our customers, to accelerate revenue growth have tremendous potential, and we look forward to sharing that with you.

So I'd like to now turn the podium over to John Owen, and when John is finished, I'll come back up and both of us will be happy to answer questions. Just a quick introduction, John is our Chief Operating Officer. He has responsibility for operations and technology for data and analytics, for real estate and procurement, for digital banking, and as a consequence is intimately involved with our digital banking strategy. John joined the bank in 2007 as Head of Operations and Technology. Prior to that time he worked both in the airlines industry and in the insurance industry, has a deep background in technology and in the operations area. John has been a great leader of our company, and most recently I would say over the last five to seven years, John has led much of the innovation that we now experience and enjoy at Regions. So, I'd like to turn it over to John.

John B. Owen

Chief Operating Officer & Senior Executive Vice President, Regions Financial Corp.

Thanks, John. Good morning everyone. Probably the next 25 to 30 minutes, I'm going to walk you through our technology strategy. I'm going to talk about some of the key technology initiatives that we have underway, and I'll transition to our continuous improvement initiative, Simplify and Grow. But first I would like to show a video that highlights some of our key technology objectives.

As you can tell from the video, we're very excited about our technology story. The video highlights things like customer obsessed, digital everything, data and' analytics and AI. Before I jump into that, I'd like to introduce our technology leadership team. They are in the audience today, I'm going to use them individually, but I do hope you'll get an opportunity at a break or at lunch today to meet each of our new technology leadership team.

We've got a great team banking experience, telecom experience, fintechs, startups, and really a wide range of experiences. We've got about 1,671 technology professionals at the bank. They're scattered across Birmingham, Nashville, Charlotte, Atlanta, and also we have offshore resources. In 2019, we'll spend about $625 million on technology, so a large spend, about 11% of our revenue. If you look at how we're going to spend that, look at the left hand side of the chart, the pie chart, about 42% of that would be on new technology initiatives. So these are new things, new applications, new technologies. About 48% of the spend will be on maintaining existing systems, but also providing data center infrastructure, network, LAN, within our core business. And about 10% is around cybersecurity and risk.

If you look on the right hand side of the chart, we got a strong technology platform in place today, and I'll start with our business applications. In our consumer system, we're very fortunate to operate a one-branch platform. Now why is that important? Many of our competitors operate on three, four, and five-branch platforms. So for us when I have to make a change I make that change one time. I test it one time, and I implement it one time. Many of our competitors have to do that four and five times. It's costly, it's complex, and it generates errors.

I'll move on to our wealth platform. Bill Ritter and team did a great job of selecting SEI as our wealth platform. It allowed us to consolidate 12 systems into one system. Now, much better cost perspective, a leading edge platform, and really a great customer experience.

If I go to our commercial side of the house, commercial corporate. About a year ago, we launch a new iTreasury platform. We've recently launched a new Capital Markets platform, and we're working with nCino on the commercial credit side. Through our business standpoint, we really have solid state-of-the-art platforms, all recent, not behind for any of our business systems. But think about back office for a minute. Workday, we use for HR, cloud-based system, state-of-the-art system; Salesforce.com, state-of-the-art CRM system. So, really, for our key platforms, we're up-to-date and really no issues as far as leading-edge technology.

I look at the right, talk about some of the investments we're making. We're spending a lot of time and energy on improving our mobile and online banking. We have a great platform, but that's an area where we'll never be finished. There'll always be new feature and function in digital and new feature and function in mobile. [ph] Around, of course, (31:08) around digital, a lot of work around back office on how we can make things more digital; take out manual process and digitize the back office. And lastly, around voice. A lot of work being done around voice, and I'll talk about that in just a few minutes.

If you look at our key technology objectives, really our four key technology objectives. First around customer experiences, and we're doing a lot across the bank in terms of taking end-to-end customer journeys and digitizing those processes, so there's no manual process and there's nothing that really allows us to miss a step or do things incorrectly. Also, around core capabilities, I talked about our core systems. Core capabilities are really around making sure we have leading edge, state-of-the art platforms in all key areas across the bank. It's around looking at how we can better deploy cloud around the bank.

Delivery optimization, that's really around how we develop. It's an Agile approach. We started that back in 2015. We launched that first in our digital part of the bank, and far as our application development goes today, about 40% of our development is in Agile format, which allows us to implement things every four weeks to six weeks as opposed to every 18 months to 24 months.

And lastly, around innovation, we always spend a lot of time and energy around innovation and it's really around how we can better partner with partners, learn from those partners, generate some revenue out of those relationships that's around Plug and Play where it's on the West Coast. Today is actually the Selection Day of Plug and Play, which we're missing today. But Plug and Play has 350 startup companies under roof. And we spend a lot of time out there working with these startup companies and helping Plug and Play select what companies [ph] go there (32:51) and allows us access to learn what's happening in banking, what's happening out of the industry as far as leading edge.

If you look at customer expectations, changing very, very rapidly. I had an opportunity to go to the Consumer Electronics Show out in Las Vegas in January. There are about 180,000 people at the Consumer Electronics Show, about 60,000 from outside the U.S. They had 2.9 million square feet of exhibits. So, every day, over about a three-day period, we walked about eight to nine miles walking through all the different displays, really everything they have there. But what you saw really are some common themes. Everything is about digitization, everything is about connected, everything is about data and analytics. And the big theme out there, whether we're talking about – regardless of industry, was voice. Google and Amazon were everywhere present out there around voice command.

Personalization was another key ingredient. Everybody out there is looking how to have personalized solutions, a one-to-one as opposed to one-to-many relationship. And also what's clear is omni-channel. There's a lot of talk about brick-and-mortar going away and digital taking over, but you see most banks continuing to expand their physical presence. And we still have cases where the branch plays an absolute key role and does about 80% of our sales today.

Let's move out of the baking industry for a minute. Target, Target is a great company, does a good job, has a good digital experience, allows customers to put in their order, drive up to the curb, pick up their order, a good combination of brick and mortar and technology. Publix which is a South-Eastern grocery store. They do a great job at digital presence and they're letting you order your order, they'll deliver it to your home or you can pick it up curbside. And banking's is going to be no different. Scott will talk about kind of how we see our go-forward strategy in omni-channel going forward.

We've had rapid digital adoption. And if you look at the left-hand side of the chart, we've got about 2.6 million active digital users. That's up about 6% year-over-year and our digital logins, over a two-year period, are up 51%, so strong growth. The other data point I would point out, as we've seen our adoption rate of younger customers, 18-year to 24-year olds, and 25-year to 34-year olds, at a much higher pace than our peers, which really positions us well for good future growth.

The center part of the slide, we've had a good growth as far as growing checking accounts and growing credit cards in our digital space. Our remote deposit capture, over a two-year period, is up 193%. And that's a great thing for us, it's a great thing for our customers. That allows us to take a lot of those transactions out of the branches and adjust our staffing models on the branches and move those service transactions to a digital format. And lastly around recognitions, a lot of things that are out there are around how they rate banks and how you rate banks in terms of their service. We use J.D. Power, and J.D. Power consistently ranks us in the top quartile in terms of our channels. And our online channel for the last three quarters we ranked number one against our top 25 peers in the industry.

Over the course of the last 15 months we set out to really digitize our complete consumer lending experience, and we did that on some of the learnings we had with some of the partnerships early on. And what we did is took an Agile approach and we implemented it over time. So, back in the first quarter of 2018 we changed the application process for mortgage and home equity and other consumer lending. We took out about half the questions and we got it down to about a five to six-minute application time. Towards the middle of the year we rolled out the document collection, alerts, status portal. And towards the end of the year we rolled out our eSignature.

So, really, we've rolled out a complete digital learning experience for our customers. Now, many of you are going [ph] that nobody have that. (36:49) We surveyed, through a trade association, the top 25 banks and less than 25% of the banks have this out there today. So, we're very proud of this feature. Our customers like it. The eSign, we went from having zero adoption to 50% adoption in direct lending in about a two-month period; great for productivity, great for the customer.

We launched a virtual agent, an AI virtual agent about a year ago at our contact center. Many of you heard me talk about this before and this is kind of a journey for us. What our AI virtual agent will do is really do three things. Number one, it will answer certain customer phone calls and actually handle those calls. So, if a customer calls in and needs to change their phone number or their email address or permanent address, activate a credit card, stop a credit card or reissue, our virtual agent can do that without ever talking to a real agent. The second thing we're doing with our AI virtual agent is it actually helps our bankers answer questions. So, when our bankers are on the phone with a customer and the customer is asking them a question, our virtual agent, at the same time our banker is typing that question in, has answered 1.4 million questions in 2018. So, it lets the bankers have a confidence level of giving the right answer and it helps with their training pace.

And lastly, we're using our AI virtual agent to analyze all the phone calls and look for pain points and look for trends that we can back up in the system and figure out ways to [ph] ever (38:20) prevent that call from coming in. So far our AI agent has been the equivalent of about 50 people. Now, over the course of 2019, we'll roll out additional feature and function, and in 2020 we'll continue to roll out additional items.

If I move on to what we call ROSIE, ROSIE basically takes 350 different data elements, the source of those elements and really figures out what's the next best action for a customer. Easy way for you to think about it, you think about Amazon. You've bought products from Amazon and when you go back it says if you bought this product, these are products that you're likely to purchase. This is a similar system. It really goes through and figures out what's that next best action for our customer and it generates offers that our bankers make to the customers. About 65 million offers were proposed in 2018. Our bankers delivered 38 million of those offers. And what we saw was a 7% lift in revenue for those customers that we use ROSIE with. Now, there's a control group that we don't, and we compare that, but about a 7% lift.

If you take a look at the left-hand side of the chart, this is our real Regions threat map. These are bad people around the world that are trying to find ways to get in our network, get in our systems, access our applications. And we have a full-time team, 24/7, 365 days a year that really is out there monitoring and preventing the bad guys from getting in. We have 12 billion transaction events a month, 12 billion, and we sort out what's good traffic and what's bad traffic, and our security operation center does a great job of doing that.

[ph] For our foreign (40:06) investment, our investments are up about 8% year-over-year in this space and we'll spend what we need to in this space to keep our bank safe. We've got a strong risk and governance culture, a very engaged board in this perspective. We've got great perimeter defenses, network defenses, application and data. Also, we've got a very strong insider threat program. And when I say insider threat, we have a profile of every employee at the bank of what their normal patterns are, what they have access to, what they print, what they look at, how long they pause on a page, and we look at that and take care of our insider threat program and take it very seriously. We've got effective partnerships with law enforcement, government agencies, and probably, more importantly, our peer banks. We get a lot of sharing across banks and it helps the entire industry.

And the last thing I'd point out is our Red Team testing. We hire many different people over the course of the year to really try to break into our systems, break into our networks, and also to evaluate how our program compares to other programs both in the banking industry and outside of the banking industry. We normally stack up in the top quartile as far as comparisons, and this is one area where I'll tell you we're never going to be finished.

From innovation standpoint, we've done a lot in innovation. I know this is a very busy slide because there's a lot of things we've done over the last 10 years. I'd put it really in three categories, one would be partnerships. We've partnered with companies like Avant, Fundation, GreenSky, SoFi. We've done this partnership for really two things: one, to learn from those companies; and, two, to generate revenue. The second group would be investments. We've made investments in certain companies that we've used their technology, their software, their hardware, and we think those investments are good. We've used them. We'll help them get off the ground, good long-term investments.

And lastly, a category of things we've developed in-house like our consumer lending platform that I'd talked about. That's a 100% developed in-house at Regions. And the last example I would give you is our voice banking. We've launched a voice banking proof-of-concept with Alexa, so you'll be able to ask Alexa what's my balance or you can ask Alexa to transfer money from account A to account B. It's a proof-of-concept. It's working. We'll roll that out into a pilot mode. And given how pilot performance goes, we'll roll that in production over time.

[ph] Now, we're transitioned (42:35) to our continuous improve initiative, Simplify and Grow. And as John said earlier, we had a lot of success in 2018 and a lot of key deliverables we got completed in 2018, and a couple of ones that haven't covered. The commercial team, our commercial credit process, I give Ronnie Smith and his team a lot of credit for really re-engineering that process and taking it from nine days to get a customer yes or no down to three. And I think they've actually beat the three and got it even better than that. I've talked about many of the other ones out there, but we've completed 10 of 45 initiatives. We reduced head count in 2018 by 1,745 people and we reduced 700,000 square feet of space.

As we look forward, let's talk about moving forward [ph] with the (43:20) key areas around head count and space and third-party spend. By head count perspective, we will continue to drive head count down over the next two years to three years. It won't be at the pace of that 1,745 we did in 2018, but we will find ways to drive head count down over the next coming years. The biggest part of that is going to be around technology deployment. It's going to be around things I've already talked about with AI, data and analytics, digitization, and workflow, in areas like operations. Logan Pichel, who's here, who runs our operations area and a lot of good opportunities to take that organization, which has 3,200 people and continue to automate and streamline that organization. Our contact center will continue to use AI to drive the number of reps down in our contact centers. Fraud and underwriting are just two other examples where there's opportunity, but, again, it really is across the bank where we have really opportunities to continue to use technology to drive down head count. Also, transaction migration. Scott Peters and his Consumer team have done a really good job of finding ways to drive transactions out of the branch and have those go to digital. They've done a really great job there, and Scott will talk about some of those. And lastly, branch consolidations. We will continue to have some branch consolidations, but we are also going to build some branches.

If you think about space for a minute, it's our second largest expense. And at Regions AmSouth merger we had 21 million square feet of space. We ended 2017 down at about 13.7 square feet. And in 2018, we reduced about 700,000 square feet. And we'll commit to do over the next two to three years, we will take out roughly 700,000 square feet a year over the next two years to three years. About 80% of that will be non-branch. So, this is not depending on branch consolidations. These are large operational facilities that we've been able to consolidate and through technology really need less space. Also, [ph] it's around (45:21) Agile. Agile really is a great way of working and accomplishing work. And this allowed us to put work teams together in a way that gets work done better, more efficiently, but also with less space requirements. And also hoteling, we're having more and more of our bankers use a hoteling approach, if they don't have full-time designated seat, and this is driving our expenses down.

On the right-hand side of the page is third-party spend, and third-party spend is things like consulting, which would be a great example. We took out about $11 million in 2018. We'll grow that $11 million to $60 million to $65 million simply by using a better, much more reengineered process, having demand management. And if you get a chance to talk to Brett Couch at break, Brett heads that area. And again we're seeing 10% to 30% improvements in that space.

I mentioned earlier our digital lending process. I wanted to point out really the eSign component of that. For direct loans, we do about 65,000 direct loans a year. And the experience a few months ago, before eSign, was we would have a banker, they would call the customer, schedule a closing, customer get in the car, drive to the branch, walk in and have a seat, wait for the banker, banker would call him over, they would sign the document eight times, the banker would go get him a copy of the document, customer leave, drive back home. Then the associate has to scan it into the system, put it in the FedEx on envelope, and mail it to the back office.

Today, you schedule an appointment, you send them a link. Simply an email with a link, a separate email with a security code to verify they are the customer. They click three times and they're done. So, it's a 90% improvement, a 90% improvement. It'll generate 1 million sheets of paper savings and a lot of FedEx savings. Now, there's a much better customer experience. From an adoption standpoint ,in about two months, we've gone from zero eSign to about 50%. And again, we looked around the room and said, all right, who's doing this in banking. I went through trade associations and less than 20% of the banks have eSign deployed today. So, once again, we think we're leading the pack.

And lastly, I'll talk about kind of many of you like for me to give you the expense numbers and the revenue numbers for Simplify and Grow. David is going to give you some efficiency targets later on. But the way to think about this is we're using the efficiency gains we're making to fund our investments in new bankers, new facilities, paying for our $15-entry wage, and also inflation. And, yes, we are having some of those savings [ph] as part of (48:04) the bottom line and they will help us improve and drive our efficiency ratio later, which David will share that number with you in just a little bit.

With that I'm going to pause and we've got about 20 minutes for questions. John is going to come back and join me. And if you would, if you ask a question, if you would identify yourself that would be very helpful.

QUESTION AND ANSWER SECTION

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yes. We're passing the microphone, so we'll start. [ph] That's how we will (48:37) identify I guess.

John Pancari
Analyst, Evercore ISI

Q

Thanks. Hi. John Pancari, Evercore ISI. You mentioned not interested or the market conditions aren't right for M&A. I had to go there first, sorry.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Surprise, surprise.

John Pancari
Analyst, Evercore ISI

Q

I know. I'm sure you had a bet how quickly it will come up. Well, someone won. So, I know you mentioned market conditions aren't right, so does that mean if you had the currency that you'd be interested as an acquirer? And then on the flip side of that, just given the BB&T and SunTrust deal, can you talk about what it would mean to you if you were still part of an M&A transaction and combining with the buyer from that perspective to compete more effectively given the scale of that deal? Thanks.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. So, first question is if we had a stronger currency and buyer, I think we're always looking at ways to improve the quality of our franchise, improve returns for our shareholders. And so, we're actively viewing the market, we're building relationships, we're trying to understand transactions that occur. But in the end, as you'll see later today, we do really believe that the quality of our plan is really sound and will deliver really solid results.

M&A is distracting and it will be disruptive, and we think that we've got to continue to improve our business to be best positioned to take advantage of an acquisition opportunity if it came along. By continuing to improve our business, we will strengthen our currency, and we think then we will have some opportunities. So, if our currency were stronger, we would be looking as we look today, but we would be active. It would have to be really the right opportunity for us, and we want to be very disciplined in that regard.

With respect to combinations, again, we've got to earn the right to acquire. Everyday we've got to earn the right to remain independent every day. And that means executing on our plans, doing the things that we believe we can do to deliver solid returns for our shareholders. And if we do that, we don't think we need to combine with anybody. But we're always going to consider and have to consider any opportunity that might come along.

Christopher Spahr
Analyst, Wells Fargo Securities LLC

Q

Chris Spahr with Wells Fargo Securities. So, of the tech budget, what is the growth rate that you expect over the next two to three years? And at what point do you think it will become self-funding and how much cost-savings do you expect from ROSIE, Reggie, and other initiatives. Thanks.

John B. Owen
Chief Operating Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yeah, just to comment on the technology budget. That $625 million for 2019, just putting in perspective for you, if we go back five years, we're up roughly $100 million. So, we have had growth in our technology spend over the last five years. I think that's going to level off a little bit. I think we've pretty much covered a lot of our key platforms that I talked about from a business standpoint. I think we have good, solid, business platforms. We don't have any big deficits. We'll continue to make investments in mobile and online, but that's going to be an ongoing thing.

So, I think $625 million is not going to grow at the same pace it grew in the last five years. Cyber, we will spend what we need to spend on cyber as new technologies become available, but feel good where we are.

Saul Martinez
Analyst, UBS Securities LLC
Q

Hi. Saul Martinez at UBS. I [ph] won't lead (52:08) the consolidation theme alone. I guess I'll ask the question in a slightly different way, John. Are there circumstances or under what circumstances do you think that Regions could be worth more as part of a larger organization versus on a standalone basis?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Yeah. I mean, clearly, the real value of our businesses in our deposit franchise. And we think, as I've said, we've [indiscernible] (52:36) in really strong markets and we think we have really solid deposit gathering capabilities.

Our board has challenged us with that very question. I don't really have an answer for you today. I think we've got to think through. We're trying to understand frankly the BB&T and SunTrust merger where we're trying to gain insights about it. And it appears, based upon the presentation they made, to be a very good deal for their shareholders, assuming that they can combine the companies in the manner that they think they can. Again, the one challenge to all that is that putting the companies together will be difficult. And so, as we deliver, show you our targets this afternoon, our risk is in execution or in some changing dynamic in the economy that we're not aware of. And so, we believe that we can execute solidly on our plans.

Saul Martinez
Analyst, UBS Securities LLC
Q

Great. Helpful. And I guess a follow-up on SunTrust and BB&T. Do you see it more of as a threat of a larger competitor? Do you see it more as an opportunity to maybe pick away some of their business and bankers and employees and whatnot?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Yeah. I mean, I think there are multiple ways to look at it. Assuming that they can successfully combine, and we certainly think they can. It's two great banks led by two really good bankers. They will be a formidable competitor in the markets where we compete. Having said that, they're both very good competitors today. And so, when they combine, two becomes one, we have one less competitor in many of the markets that we compete in, and that's a good thing for us. I do think that there will likely be some disruption that occurs from the combination. And as a result, we hope to gain customers and potentially some bankers. We wish them very well in the transaction, but I want to take advantage of when the opportunities do present themselves.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. Gerard Cassidy, RBC Capital Markets. John, John Owen that is, can you share with us – we hear from many banks about their tech spending. Many of us were across the street yesterday and heard that presentation about tech spending. What measures should we be looking at to see what advantage some banks may have over others because of the technology that they're employing in the digital channel? And then a second question, you mentioned 80% of your sales is still coming through brick and mortar. In five years where do you see that number going down to?

John B. Owen
Chief Operating Officer & Senior Executive Vice President, Regions Financial Corp.

A

When we look at technology span and I knew a lot of questions are going to come up about the scale of thing. And we look at it more from what does the customer think versus how much we spend, and we look at, from a customer standpoint, we use J.D. Powers, we use Kantar, we use Gallup, and they gauge our channels from our customer standpoint. So, I think more importantly than what you spend is what your customers are telling you about what you've done.

I mentioned our online banking was ranked as number one over the last three quarters in a row, so I feel good about what we have in terms of business platforms, our mobile and online platforms. I think they're up to date and state-of-the-art. And I think the most important thing is what your customers are telling you.

Kantar just recently did a survey of retail banking in the U.S. and they ranked all U.S. retail banks and they came out recently and number one was USAA, which is a great institution, and number two is Regions. And so, we look at that and that's all from customer experience and how customers interact with their organization. So, we look at that first and foremost.

Secondly is around capabilities. Are we delivering the capabilities that our customers need to do the business they need to do? And again, I think we are and I think there are places where we will continue to invest over time But again I think we're in a good place. So, scale to me is much more about capabilities and customer experience than how much you spend.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Gerard, I'd add just in terms of what metrics do we look at or what markers are we interested in, are we growing consumer checking accounts. And I mentioned we are for six years in a row. Are we growing consumer deposits particularly consumer demand deposits and consumer savings deposits, and we are? So, those things to me, in addition to as John says, do customers prefer our capabilities, do we get favorable results from feedback from customers, the answer is yes. But at the end of the day, are we growing? And if we're growing, I think that's the greatest proxy for are we keeping up delivering the right capabilities.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks. Betsy Graseck, Morgan Stanley. A couple of questions on that, one related to how much market share you think you can take in your current footprint. You highlighted very clearly how you're in a good spot in much of your market and highlighted the 70% where you don't have money center competition. And then the follow-on to that is, are you going to use the technology that you have to go outside of your footprint into areas where you don't have traditional branches today? And I think you might have referenced that in some of the markets you talked about earlier. But give us a little bit more sense as to how, nationwide, you're looking to go with your platform?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. So, as I said earlier, we operate – some of our businesses operate on a national scale, but we're not pursuing national businesses or pursuing a national platform. We don't intend to develop a digital bank. We have great digital banking capabilities we think and customers can do all the things we need to do. We believe fundamentally that we can raise all the deposits we need within our 15-state footprint. We think we have lots of good opportunities, as I said, in our markets. We think we have very good deposit gathering capabilities. And so, our focus is going to be on in-footprint businesses built around relationships that will be long-lasting, profitable, and sound.

With respect to our market share growth, we've generally said we want to grow with the economy plus a little where we have significant share. We think oftentimes we get more than the economy grows, where we have lesser share, and we're working to build our market share over time. So, it's going to vary from market-to-market, but we ought to grow with the economy plus a little if we're having success.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

And with the technology that you have developed, you're obviously creating significant amount of scale for your own organization. So, why not take that to other organizations, right? I mean, it's the M&A question and I get the whole conversation that we had already around multiple on things like that. But you highlighted very clearly that you're well ahead of your regional peers. So, at what point is that a tipping point for you?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. Well, again, I think the first question is, are the economics right, can we do a transaction, not pay too much for the transaction? And given where we trade today versus many of the smaller banks that we might have some interest in combining with, we just don't think that there's a transaction to be economically done. Set that aside, again, and we think there's still lots of improvement to be made in our business if we just focus on our plan. So we don't want to get distracted by an M&A opportunity. Yes? Oh, yeah, okay, Marty.

Marty Mosby
Analyst, Vining Sparks IBG LP

Q

Marty Mosby, Vining Sparks. I was going to ask kind of a two-part question but when you look at your regions and what you said were different in your markets where you don't have the competition from the money center banks, yet the incremental markets that you're going to are the markets that all the other money center banks are going to. So in my mind, there's this pivot that either you grow in that area and then it's really going back to the M&A part.

If you go the bigger metro areas, you're a better franchise to be taken over down the road or be merged with somebody else down the road. If you focus on the smaller markets, that really is where you have your advantage where you can leverage everything that you have and your independence really becomes much more of an interesting or viable approach. So I just wanted you to talk about those two elements, and how you think about which markets you're growing into.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. We think we can do both. We want to continue to protect and grow the core markets that we're in. We want to continue to optimize our franchise in those markets and to grow those markets. At the same time, we think there's an opportunity to take advantage of our style of banking in markets that present tremendous deposit gathering opportunities. We have to be a niche player in places like Houston, Atlanta, Orlando, to your point where we're facing larger competitors. But we think we have all the capabilities.

Our unique approach to local and the way we team together we think differentiates us. And those markets are present – they're so large, they present real opportunities for us to grow our business and do it in a very targeted and focused way. And so we think the combination of those two things helps us continue to build a very consistently performing sustainable business. And assuming we can do that and deliver the kinds of returns that we'll share with you later today. We think that dictates our future.

Marty Mosby
Analyst, Vining Sparks IBG LP

Q

[indiscernible] (01:02:34-01:02:42)

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

No. Our consumer team would be a little more targeted and focused on the type of customer we would want in consumer. Our commercial teams, again probably a little more targeted and focused, but I wouldn't say that we have – think about it in different segments. It's the same customer in Jackson, Mississippi that we want to try to win in Houston as well. Yes.

Q

I don't have a mic but I'm going to try to speak loudly. When you think about the technology bundle of $625 million, roughly $250 million is for new product development or innovation, whatever you want to call that. And you've got – thank you – you've got peers like whether it's now the SunTrust-BB&T combination or USB, which are double or larger. What do you think is the difference then between what else they may be investing in [indiscernible] (01:03:40) for one? Number second, is there something on your wish list which is sort of like to have, but not critical right now but it's further down? Can you either talk through it from both those perspectives?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

No, I feel very good about our technology spend, very confident. Like I mentioned before, over the last five years, we have gone up by $100 million. So I think we're spending at the places we need to and I go back to – I think it's about what your customer viewpoint is, what do the customers think about your system, how fast you're growing the business, how fast you're getting adoption. I'll go back to our digital adoption. Our 18 to 24 and 25 to 34 year olds were outpacing all of our peers. And so I think we're at a good place. I don't really worry that some of our competitors spend $10 billion or $9 billion or $1.5 billion. They've got a larger base to cover.

So let's take Chase, for example. They've got several thousand branches to make sure that they keep up to date with hardware and software. We've got 1,450. We've got 1,900 ATMs. They've got 6,000 ATMs. So they're just by nature going to spend more. They're international bank. We're not international. The complexity of their systems and the number of different systems they have, they're going to spend more. But the fact that they spend more doesn't say that they're doing things that we can't do or we haven't done. We're pretty far out in front with AI. We're pretty far out in front with data and analytics, and so I feel good about our spend. I think it has more to do with the customer viewpoint and capabilities.

Q

And do you think that would apply in not just the Consumer business, but both Wealth Management and the Corporate businesses too?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

I do.

Q

And I mean where are you in treasury management, for instance? I know somebody's going to speaking about the Corporate segment, so we can talk?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

We rolled out a new – and Ronnie will talk about that in a little bit. We rolled out a new treasury management platform about a year ago. So again, once again, we've got a very up-to-date platform, a very good platform in place today. Yes.

James H. Hanna
Portfolio Manager, North Reef Capital LLC

Q

Hey, guys. It's Jimmy Hanna, North Reef Capital. Just the question is really around how you evaluate, what the right level of growth is or said another way what the acceptable level of growth is. So in the near term, I can see some reasons why Regions should potentially outgrow peers: the disruption in the market from the BB&T-SunTrust deal; population growth, I think you showed – I don't have the slides in front of me but you showed one of the slides where I think your markets are growing 3% plus population growth; and then the third one being to Simplify and Grow.

I know I'm not getting all of the expense saves to the bottom line because some of those expense savings would be invested for growth initiatives. So it seems like there's some reasons why Regions should outgrow peers in the short-term intermediate term? But how would you evaluate what the right level of growth is? And then in context, I listened to the checking account growth and it sounded like maybe 1% growth in primary checking account. So is that a good enough level of growth? Maybe you can just speak to that. Thanks.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. So with respect to your last question, Scott Peters can answer this better than I can, but I don't – our belief is that that 1.4% consumer checking account growth is a really solid number within the industry. We don't see – peer data's not published, but we have the benefit I think of seeing some peer data through trade associations. We think that's actually a very good number and again, translation to 4.2% consumer demand and 5% consumer savings growth. So we think that's positive.

Year in and year out, we think our business ought to grow sort of with the economy plus a little. There'll be times we grow a little faster, times where we grow a little slower. We can't necessarily dictate the flow of business. We had a very good fourth quarter. Our pipelines were full. We closed a lot of business first quarter of 2019. We benefit from the fourth quarter, but pipelines are a little softer. So as you think about our business, it's going to ebb and flow. We would target growing sort of with the economy plus a bit.

Again, as you'll see later today, we don't have to grow a lot to deliver on what we think are really quality results. And at this point in the economic cycle, we could go – the economic cycle could go on for a number of years. But many are speculating we may be nearing some softening in the economy. And if that's true, we certainly don't want to be growing faster than our peers, heading into a downturn. We did that in 2007 and 2008 and it didn't work out very well. So we want to be thoughtful. This is the time to focus on quality, on client selectivity, on sound underwriting, and just being real mindful about the fundamentals of our business, and we're going to do that.

That's time's up so we'll have time for questions, if you want to ask John or me later when we conclude, we'll take a 15 minute break and start back at 9:25? Thank you.

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

Okay. We'll get started again. So we had intended to put the presentations out as they were being made as we did last time and our webcast got a little ahead of us, so you may have noticed that all of the presentations have been now downloaded. Hopefully, you have access to them. I think David's presentation was last to be downloaded and you should have it, if not right this minute then shortly. Yeah, yeah, please still pay attention. That would be nice.

So I want to introduce our next three presenters. They're our business segment leaders and the first is Ronnie Smith. Ronnie leads our Corporate Banking Group, which includes Corporate Banking, commercial banking, real estate banking, treasury management, asset lending businesses, specialized industries, capital markets. Ronnie has been a banker for over 35 years. He began his career as a management trainee with Deposit Guaranty, which was many you might remember, a predecessor to Regions Bank. Ronnie spent his entire career in markets as a banker, leading bankers, working with bankers and has a great feel for the business and for our bankers and our customers. And he does a super job leading the business. I think you'll be interested in hearing Ronnie's plans.

Scott Peters, who runs our Consumer Banking business leads retail, mortgage and indirect lending, will follow Ronnie. Scott has a 30-plus year career in the financial services industry having worked for KeyBank, for Citibank, Fidelity before joining Regions in 2004. Scott is really passionate about Consumer Banking. He's on the board of BAI, the Consumer Bankers Association, done a great job for us, been the catalyst architect behind much of the innovation and change in our Consumer Bank, our making banking easier and our retail network strategy. So I know you'll enjoy hearing from Scott and about our plans in Consumer Bank.

And then finally, Bill Ritter who began his career in 1993 at Regions as a commercial banker or probably as a management trainee and then a commercial banker, has again been working with bankers all of his career, both as a commercial banker and leading commercial bankers. We asked Bill to run wealth banking in 2011, and he is the architect of our current wealth strategy.

One of the things that makes Bill unique and frankly makes Bill, Scott and Ronnie unique because they've all worked with bankers, they've all worked with customers. They've all been bankers facing customers. So they understand our business well, understand our markets. Bill, because wealth banking is so dependent upon referrals, internal referrals for a lot of our success, Bill brings a unique perspective having been a commercial banker. And I think he's doing a great job leading wealth banking.

So I'll now turn it over to Ronnie. When Bill is finished, just as we did a few minutes ago, we'll have time for Q&A of the business leaders. Thank you. Ronnie?

Ronald G. Smith

Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

Yeah, thank you, John, and let me thank each of you for being here today and for the interest that you have in our company. There are three topics that I would like to cover from a Corporate Banking standpoint that we think are absolutely critical to our success. You've heard some of these before, but it's critical for us.

Number one is just a really strong risk management foundation. We believe that we have that, but we will continue to improve that along the way. And then, our go-to-market strategy is critical for us as well. We think it's unique and we'll take a little bit of a deeper dive into what that looks like for us. And then, we'll talk – Jimmy, as I've promised at the break, we'll talk about drivers of success and some of the investments that we will make in the business as we go forward.

Before we get there though, let's take a quick look at the overview of the Corporate Bank. We break this business or our group down into three businesses: commercial middle market that moves up to $250 million in sales – Bill Horton is here and he runs that business for us; and then large corporate, which Ward Cheatham handles for us as well, picks up at that point and also the specialized groups John Turner mentioned earlier sit in that particular category; and then real estate.

If you look at the number of clients that these businesses manage, it's over 26,000. They manage $47 billion of deposits, $27 billion of loans (sic) [$27 billion of deposits, $47 billion of loans] (01:13:55) and that produces just under $2 billion of revenue. One of the things that we're very pleased with is how that mix has changed over the past three year period. When John Turner had this role a few years ago in 2015, we set an aspirational goal that we would move noninterest revenue from 22% up to 28%. And I'm happy to put another green check mark on that when we made that target in 2018, and we like where that trend is taking us on a go-forward basis.

When you think about the foundation of risk management, it starts with client selectivity. You can't pick a bad client and structure them to become a good one. And so, we are focused on those companies that have a reason to exist, well capitalized, proven ability to work through the cycle. And so client selectivity is critically important.

But also important is really solid underwriting, rigorous monitoring and then once we get those three things in line where we really place our focus is on diversification and we do that – Barb will talk about this just a little bit later, but we do that by having really strong concentration policies from an industry standpoint and you can see that in this next slide on our commercial and industrial business.

We start off with the most loan exposure, loan outstanding dollars in the government and the education area and that represents 15%. Certainly not an outlier but as you move down the list, we go all the way down to 1% from an agricultural exposure. But all of these industries are strongly supported by the industry and product experts that we talked about before, we get the best of both worlds there because we're leveraging up industry and product expertise with local bankers. We get local bankers deep relationships and they become very involved with our industry and product experts to bring about best-in-class client solutions.

The group that has faced the most change though has been our investor real estate group. Many of you that I know in the room followed us when we put two banks together in the 2006-2007 category. And when we did, both banks had an outsized exposure to investor real estate. And not only were we outsized in the exposure, comparing that back to the total loan portfolio, we were out of balance from a product standpoint.

Of all the slides that I will show you today, this is the one that is the most dramatic and it's the one that I am so pleased with what the group has been able to accomplish since 2007. Look, they have positioned us to be in a very solid area, 7% of our loan balances compared to the [ph] top company (01:17:10) now reside in investor real estate compared to our peer group that's at 13%. This group has positioned us to grow.

But don't make any mistake about it, our growth in this category is focused on well capitalized companies with proven ability to work through the cycle that all of you know inevitable in this business. We're being very selective but we did see growth in 2018, especially in the second half of the year. If you take a look backwards on the point-to-point growth in investor real estate, it was a 6% point-to-point growth, very healthy and focused on those kind of relationships that we're looking for from an investor real estate standpoint.

This next topic is one that you're not aware of, I'm sure. We only hear about it every week. Some of you write articles about it. We get a question every week about this particular topic. Today's goal is to be as transparent about our leverage lending portfolio as we can possibly be. Barb will talk about some of the definitional standpoints and the differences and some of the inconsistencies that you have from one organization to the next. But I'll take a swing at what we are interested in from a marketing standpoint versus what we're not.

Maybe it's easier for me to start with what we are not interested in. From a leverage standpoint, these are limited dollars for us because of the concentration limits that we talked about a little bit earlier. We are not interested in any leverage loan for the loan's sake only. This is not a transaction approach for us; this is a relationship approach for us. If we can't find the right client, who is willing to provide us with opportunities for broader and deeper growth and moving in the right risk metrics, then we do not have interest there.

There's good diversity as you can see, if you'll notice in the bottom right-hand corner of this particular slide, you can see there's good diversification. Information and manufacturing both make up 17% of that, and you can walk your way down the rest of those categories because we're looking for diversification, but we're looking for opportunity for relationships moving in the right direction, willing to build something a little bit broader.

If you also take a look at the left-hand side of the slide in the bottom left-hand corner, we have $1.5 billion of deposit balances on loan balances outstanding of $5.5 billion, 25% compensating balances in this business point to the importance of us and what we're doing by developing broader and deeper relationships.

We love our go-to-market strategy. As a matter of fact, it starts with our client at the very center of what we do. Those clients, as John Turner said in his opening comments, face off against the businesses that we described just a few minutes ago. And those businesses are supported by industry and product experts.

You can see on the right-hand side of the slide, the product offerings that we have in our specialized vertical area, capital markets, treasury management and our Regions Business Capital group. We believe that we have the products that are needed to serve the markets that we serve today and to meet the needs of our clients. We believe in this because we get the best of both worlds.

In many cases, our local RMs have relationships that have [ph] expanded (01:21:07) over decades. And those are relationships that are valued by those particular clients. On the other hand, they may not have the industry and product experts that we have in these particular markets. And so they're able to call in resources to help them bring about the best-in-class client solution.

And look, it's an efficient model for us as well. There's no way possible that we could take all of the industry and product experts and put them in the various markets that we're in today. Today this group represents 10% of the head count of our company. We produce 33% of the revenue and 40% of the profit.

And what we haven't given up on is the service levels. You've heard both John and John talk about the service levels just a moment ago and more than 12 times, Greenwich has recognized us for having Best in Brand, best in service. And so we stay focused on that service and it speaks to this model that we strongly believe in.

When we successfully execute that partnership, you can see what happens on the left-hand side of this particular slide, you can see what happens to our RAROC models and also the percentage of revenue and profitability that the verticals are helping us drive. Diversification again is critically important to us, in the right-hand bottom corner of this slide, and you can see where the vertical activity is taking place. So, again, that partnership is the epitome of something that we refer to and many of you know as Regions360. It's working across lines to bring about the best solutions that we can.

Capital recycling has already been mentioned a couple of times today and it's very important for us. We have capital that it takes to support lending activities. And yes, there are times that we lead from a loan standpoint, but when we cannot find our way to build a broader and deeper relationship, we make some of the tough decisions to move away from those relationships and we provide ourselves with the opportunity to take the capital and redeploy it with relationships that make sense to us.

In 2016, John Turner put in place something called the Capital Commitment Working Group and it was a simple discipline. We meet once a week and we review all of our loans that have not been able to have a broader and deeper relationship. It's a manual process for us, but let me tell you what it does. It drives culture through our company in a very strong way. And you can see what's happened as a result of the focus that we're really giving this very important recycling approach, economic capital, which is just a placeholder for how much capital that we assign to each loan based on how we view that risk, has been driven down by 110 basis points.

And on the other side of that, our profitability continues to move up and the reason it's moving up is not because we're getting a higher price on our loan pricing, but because we're getting better opportunities to sell across the needs of those particular companies. We'll continue this process. It is part of our go-to-market strategy and it's one that continues to prove that when we get capital deployed to the right relationship, it makes a big difference for us.

You can't talk about our go-to-market strategy without mentioning our solid core markets – markets like Mobile, Alabama; Montgomery, Alabama; Jackson, Mississippi; Shreveport, Louisiana. As a matter of fact, John mentioned this just a moment ago but I had the opportunity in my career to spend more than 20 years in client-facing roles in these particular markets. What I can tell you firsthand is that not only do we believe in those relationships, those clients view us with great respect. As a matter of fact, in many cases, we represent for those clients the money center bank that delivers on a community bank basis and the clients value that relationship.

And in these particular markets, it's not necessarily where we bank. I know if you pull up some of the demographics, you'll find out that these are not the fastest-growing markets that we have, but they are profitable markets for us. And the reason why is because the businesses that we bank in our core markets are not limited by city limits or state lines. I can't tell you the number of times in that 20-plus-year period that I had the privilege of working in those areas that we saw our companies grow from just a city company to a statewide organization to a regional organization and, in some cases, having a national presence. And by the way, because of the loyalty that we have from those clients, we get to grow with them.

70% of our new revenue comes from existing relationships. Now a lot of that is due to the fact that we're really focused on Regions360, but a good portion of that is because we get to grow with those companies that are in those markets that may not have the best demographics that you would look for, but those companies once again are moving past what those particular markets provide for them today. We do have really opportunities in our growth markets.

We've identified three cities – Atlanta, Houston and Orlando – that Bill and Scott and I are locking arms on over the next three-year period, and we plan to have a synergistic approach in these particular markets. And you can tell why. Just take a look at several of the facts that you find below those particular cities. We already have some density there. Scott will talk about this a little bit later, but he'll be making investments in our branch delivery system. And Bill and I will be making investments in people and processes, and our plan is to attack those markets much like we do our core markets today.

What we like about these markets is that there's disruption in these markets, and we believe that our culture is a great place for people to come who are feeling disrupted by whatever may be going on in those particular areas. From a Corporate Bank perspective, we also make investments in other growth markets, markets like Dallas and Nashville, Indianapolis and Charlotte.

We are making opportunistic hires in those particular markets because of some of the disruption that's occurring there. And if you just look at our year-over-year comparison from 2017 to 2018, we had 7% revenue growth in these markets by making really individual hires with bankers who have great brands in those markets and enjoy the culture that Regions brings to the table.

When I think about our growth strategies for the future, it starts with what we are known as, as a company, and that is a very strong deposit franchise. That's true for us also from a Corporate Bank perspective. 80% of our clients keep an operating account with us in the Corporate Bank today. And in 2018, we saw a 3% increase in our year-over-year growth in treasury management, cash management type products and services. That 3%, by the way, is on a very large base. But on our forward focused strategies and in several of the individual meetings that I've had the privilege to attend with several of you, you understand that as rates have moved up, so have the clients' appetite on what they expect from a liquidity standpoint.

And we're responding to those needs. First of all, we're asking our, calling our coverage bankers to lead with deposits and our treasury management services. The reason that's important is that is because it's important to those clients today. Look, simply put, not every business has a loan need but every business does have a deposit and a cash management need. And so if we're having those conversations, I promise if they have a loan need, it comes up during those conversations.

As rates have moved up, so have earnings credit rates. And it's given our customers the opportunity to have more buying power associated with treasury management products. And so, we're also leading with those conversations. It's the right thing to do for the client, but it's also the right thing to do for us because it makes for a stickier client with every additional product and service that we're able to provide them along the way.

And then we're also opening up more balance sheet opportunities to sweep excess balances to our balance sheet. We have a full array of off-balance sheet opportunities, but our clients tend to lean back into wanting to have that access on our balance sheet. We've seen really good traction in that process already and we believe that that will continue to move forward.

When we think about technology, data and analytics and innovation, John Owen mentioned this earlier, John, in your comment about our end-to-end commercial lending process. Just about eight months ago, we developed the team from across our company to take a look at something that we felt like had been in place for quite some time to see if there were more efficiencies. We set that team up in a Lean Six Sigma approach and what we found is that we – over the years, we had created redundancies in our commercial lending approval process.

Just by taking out the redundancies and – oh, by the way, before I go any farther, the non-negotiable there is that we could not give up any credit quality standards that we had put in place. But what we did give up were redundancies that had developed within that particular approval process and we have moved it, John, from nine down to three days. It takes the transactions off the Street. It eliminates some of the competition we have. It gives us a higher pull-through rate that our clients enjoy and it makes banking easier for them.

We are investing, as John said just a bit earlier, in several of our different platforms: capital markets, commercial lending, equipment finance, and treasury management have either all had new platforms installed over the past year or enhanced platforms that we continue to work on today.

And the third block on this particular slide are three things that I'm very excited about. Two of these are really tied at the hip and it's the first two. One is an early warning risk indicator and the other is a share of wallet platform. They actually work on the same platform.

You remember the 80% operating accounts that I talked about just a moment ago, these platforms actually extract information out of the cash flows that are occurring within those operating accounts. With the help of outside vendors, we have identified more than 200 data points that we'll be able to pull information out of what's occurring within the cash flows within the operating accounts. That's going to arm our RMs with being much more proactive with our clients than being reactive, not only proactive about potential risk that we see developing with that business, but also anticipating needs that the client has and having proactive conversations with them as we move forward.

And then the last thing on the list or at least in this third box is something that we're referring to as a customer portal. It will create a repository of information where we supply industry information that we have about that business. The business does that as well and it allows us to both pull closer and take a look at the business through each other's eyes.

There's much more to come with the customer portal. And so, we'll talk about a little bit later as we develop more. But having real-time communication with our clients is absolutely critical in the speed of the world that we live in today.

In addition to those things that are so important to u, liquidity management and technology. We ask our teams in our three-year strategic planning process to help us develop where we should go together. What I like about this is that it was a grassroots level where we went to our client-facing RMs and our second line of defense, and it became a team effort. It's an odd number, I know that. It's 11, but it's 11 really good initiatives that were developed by our teams.

It ranges from everything from our commercial group and treasury management group that's focused on deeper penetration into our commercial card and the liquidity management that we're talking about a little bit earlier. Our large corporate group will continue to expand verticals certainly [ph] word move (01:35:16) into the areas where we have growth opportunities along the way. And then, from a vertical standpoint, we will expand those verticals to include new opportunities.

And within our real estate group, we're expanding our fund sponsor coverage. We're doing a great job doing the projects that we were finding in those fund sponsor coverages. But what we have found by developing a team and we did that in late fourth quarter, we've already seen great traction of noninterest revenue opportunities that we're finding at more of the parent companies along the way. These groups were really hand-in-hand with our capital markets group.

Several of you remember a few years ago when we divested our broker-dealer that we started rebuilding our capital markets teams so that we could support our client base just with the needs that they have along the way. And those needs have continued to grow as well as our capital markets team has been able to grow. And it's been a great positive story.

Terry Katon is here with us today and he heads that capital markets team for us. I've asked Terry to make a few comments about this slide, which is a dramatic opportunity for us over the last several years and, Terry, where we will go as we move forward.

Terry Katon

Executive Vice President & Head of Regions Bank Capital Markets, Regions Financial Corp.

Thanks, Ronnie, and thanks for everyone here for spending time with us. I wanted to talk a little bit about the growth we've in Capital Markets. You can see over the last four years, we've been able to grow the business more than 175%. It's been a compound average growth rate of about 29% during that time.

A good portion of this was, as Ronnie mentioned, in 2012, we sold our broker-dealer, and that gave us the opportunity to really take a fresh look at the businesses we want to be in and we have a clean slate to work with. And so, in 2013, we established a new broker-dealer called Regions Securities and oriented the services we were going to offer to our clients to what we saw them meeting in the marketplace.

You see as well here some additional products we've added over the last five years. What I would orient you to is we're in three product groups. One is hedging services, and this is foreign exchange, interest rates and commodities, where we help our clients manage the risks in their business. Then, we have capital-raising businesses across the public and private markets to support our corporate, commercial and real estate clients. And then, we've got advisory services, which is primarily our BlackArch M&A platform.

You see here, as I mentioned, a number of our product additions. One I might highlight, in 2014, we acquired a Fannie Mae DUS capability that we actually rolled out to our customers in 2015. Barb is going to talk about how we've managed our multi-family exposure in this cycle. But this is a good example where we have a capability there that has enabled us to better manage the risk in that portfolio while creating better returns through more fee income on a smaller portfolio. So real success there.

What we found, and this is a good example of the Fannie Mae DUS product, is our customers have really reacted well as we brought out new offerings to them. The way we do business with them has really been rewarded from them and we've grown the business, as you can see, substantially and we've got additional opportunity to do that.

The last thing I would mention to you though is we are not – you'll see Ronnie mentioned sales and trading on the loan side is something that we are building out, but we don't trade for profit. We will trade to enable our clients on the investor side to generate better liquidity in their portfolios. But most of our trading activity is to manage the risk in our customer transactions. And so you won't see the kind of volatility in our capital markets P&L that some of our peers exhibit.

Thanks, Ronnie.

Ronald G. Smith

Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

Yeah. Thank you. Terry. And when we get these things in alignment, liquidity management, data analytics, technology, and the initiatives that we talked about, it really will drive continued efficiency for us. In 2018, our efficiency ratio was just over 47%. And we feel like we'll have more improvement with that over the next three years and beyond in the 300-basis-point range. And so, we look forward to continuing to focus on how do we get more efficient, how do we grow revenue, and continue to be really good from an expense management standpoint.

I'll sum up today where I started. Number one, we clearly understand the importance of strong risk management. We have to do that to afford the right to grow every day and we owe it to you as our investors to be solid risk managers.

The second thing is our go-to-market strategy is something that we believe deeply in. We think it sets us apart in the industry. We think of it as our secret sauce. And those partnerships really do allow us to build deep, long relationships that we enjoy.

And then last on all the things that I mentioned about healthy growth, we understand that there will be economic changes. But we believe that these 11 initiatives really provide us with a solid pathway for continued improvement as we move forward.

Thanks again for your time today. It's my privilege to introduce my partner, Scott Peters, who heads up our Consumer Group, and just a great partner for us on the Corporate Banking side. Scott?

Scott M. Peters

Senior Executive Vice President & Head of Consumer Banking Group, Regions Financial Corp.

Thanks partner.

Ronald G. Smith

Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

Thank you.

Scott M. Peters

Senior Executive Vice President & Head of Consumer Banking Group, Regions Financial Corp.

And thanks to everyone here today who's joined us to hear the Regions story. It's something we're proud of and excited to present to you. Before I get going on my prepared remarks about the Consumer Bank, we'll see just a brief video to share a little bit with you Regions brand of banking. This video gives you just a brief taste of how we're combining technology and proactive guidance to deliver better outcomes for our customers. It's allowing us to drive more value for them, grow our bank, while, at the same time, become more efficient every day.

During my prepared comments today, you'll see a few themes emerge. One is how we're going to lean in to our superior customer service advantage, and the primacy and loyalty of our customer base. Secondly, how we're going to continue to invest in an omni-channel experience that delivers more value for our customers, while, at the same time, allowing us to become more efficient all the time.

Third, we use strong data and analytics in everything that we do to target our customers appropriately, to deliver them the right solutions, as well as to prioritize our resources effectively. And fourth, we're going to lean in to a strong operating advantage we have in the mortgage business to grow our share in that business for the long term. Let's jump right in.

Regions Consumer Bank drives roughly 58% of the revenue of Regions and about 53% of the pre-provision income. It's split between three businesses. Last year, the retail business delivered 86% of the pre-tax income of the Consumer Bank; mortgage, 12%; and our indirect business, 2%. We operate across 15 states, as was mentioned earlier, with roughly 1,450 branch sites. And we serve over 4.3 million consumer households and 370,000 small businesses.

Let's take a quick look at the balance sheet. The Consumer Banking Group has roughly 61% of the deposits of the company. It's a deep and granular deposit base as mentioned already today. About a third of that is in noninterest-bearing accounts, and about half of it is in checking accounts.

If we look at the other side of the balance sheet, we have $32 billion of loans, which is just a little shy of 40% of the loans of Regions. 44% of those are first mortgages and 70% are secured by real estate. 16% of our loans are in the indirect business, of which about 60% of those are secured by automobiles. The remainder is split between credit cards, direct loans to our consumers in our retail branches as well as small business loans in our retail branches.

All of our product and business strategies are looked at through a lens of risk-adjusted returns and relationship opportunity, and we constantly look at the balance of our business and manage our concentrations. Some examples of that have been how we treated our indirect auto business. Few years ago, we exited a flow arrangement we had in indirect auto because the risk-adjusted returns were challenged when we put it into a runoff portfolio.

And as John mentioned earlier today, the risk-adjusted returns on indirect auto business have been very challenged and really so optimal for us. So we are exiting that business with our last fundings occurring right around the end of the first quarter.

Additionally, if you look at our mortgage business, we focus on direct origination, not correspondent lending. Direct-originated mortgages drive roughly twice the risk-adjusted returns of correspondent loans.

If you look at our credit card portfolio, our relationship approach on credit card portfolio has allowed us to have 80% of our credit card holders actually have a deposit account with Regions as well, once again, driving stronger risk-adjusted returns and better performance through various credit cycles.

Last but not least, we focus on balanced business and managing our concentration limits. We've grown third-party unsecured loans pretty strongly the last couple of years. You will see that level out this year as we start to approach our concentration limits and keep our disciplines around that. Everything we do goes through a filter of risk-adjusted returns. It's so important that we get paid for the risk that we take.

Let's talk a little bit about our Consumer Bank strengths. We talked a lot about our markets today. It's a nice combination. We have strong, dependable, and stable markets which give us great sources of income, but we also operate in some of the fastest-growing metros in the United States.

As I mentioned earlier, we operate in 15 states. They hold about a third of the United States population. Our core markets reside in the states that you see on this slide in blue. And in those markets, we have some common characteristics across them: strong share, low-cost deposits, high primacy, and very granular loyal relationships.

These markets represent between 85% and 87% of our loans, deposits and revenues in our retail bank. They're not only dependable; they're actually growing in a dependable fashion. Over the last three years, these markets have grown at a 3.5% compound annual growth rate in revenues and we can continue to see that happen as we go forward.

Add to that the fact that we operate in 24 of the top 50 fastest-growing metros in the United States. These metros lie both within our core markets as well as in other markets that we operate in. You see some of the markets here where we're making investments and as mentioned earlier, in three of those – Atlanta, Houston, and Orlando – we'll be making investments across our lines of business with not only retail distribution investments and consumer investments, but investments in our resources in the Wealth Management area and in the Corporate Banking area.

Additionally, we operate in other fast-growing metros where we're having nice growth rates, and we have future opportunities to make investments to accelerate those growth rates as well.

Regions360 is our team-based, needs-based approach to bringing all of Regions to our customers every day. It's critically important that the Consumer Bank is especially good at this. We are the storefront for Regions.

We really focus on it in two different ways. One of those is through proactive guidance with our certified bankers, which helps fill out all the core needs of our customers. That's really a penetration play that we can execute within our retail branches. But very importantly, when having the right needs-based discussions with skilled bankers, we uncover more complex needs, opportunities to introduce our partners in the Wealth Management area and in the Corporate Banking area to solve those complex needs for our customers.

We've had strong results across both of these efforts. First of all, from a penetration perspective, we've increased Regions360 relationships in the Consumer Bank by 3.5% last year. And the Regions360 relationship is very simply a fully valued, fully sold relationship, which drives 140% more revenue than your average Consumer Banking relationship. Great progress on penetration.

Additionally, though, we've done a really terrific job of introducing our experts in wealth and corporate to our customers to solve their more complex needs. During 2018, we drove over $170 million of incremental revenue from referrals. Additionally, 30% of all the mortgages that we originated last year were referred from our retail branches, and we introduced over 70,000 clients to our experts in the Wealth Management area for investment advice and investment products.

The hallmark of Regions is our relentless customer focus. I want to reward it with top-docile customer loyalty and very high brand favorability. 75% of our customers indicate that they'd be willing to refer friends and family. And in fact, in 2018, we opened up over 50,000 core checking relationships from referrals from our loyal customers. As John mentioned earlier, 60% of our deposits are held by customers who've been with our bank for over 10 years.

And not only do we have loyal customers; we continue to grow. We've consolidated over the last five years 284 branches. In spite of that, we've grown consistently for six years straight and continue to have growth rates that per third-party conversations and relationships appear to be at the top of the industry.

And it's not just working with core loyal customers; it's attracting the next generation of banking customers. 50% of our new checking account openings today are with customers under the age of 30. And you see a depiction on this slide of some of the card relationships we have through our Southeastern Conference affiliation being the bank of the Southeastern Conference, and we're fortunate to operate in all these market areas, attracting the next generation of banking customers.

It's clearly a strength of ours when we get recognized by numerous third-parties. Here's just a few on this slide. But during 2018, no less than 12 third-parties recognized Regions as the number one or number two financial institution in customer experience, customer satisfaction and customer loyalty. This is clearly a competitive advantage for our bank.

And what does it do for us? It drives industry leading primacy with our customers. Over 90% of our checking accounts are the primary checking account of our customers. Why is that important? It provides a stable, low-cost deposits. 92% of all the consumer deposits are held by customers who have their primary checking account with Regions. And we've had great performance across that base, and these primary accounts also have high activity levels with us, which drives noninterest revenues and makes us the first choice for their future financial needs.

Our low-cost deposit base is probably the greatest financial contributor to Regions' overall financial results coming out of the Consumer Bank. As mentioned earlier, it's roughly 61% of our deposits. It's a very favorable mix with a lot of noninterest-bearing accounts, about roughly 33%, and we consistently have deposit costs at half our peer averages. And through these rising interest rates cycles, we've had one of the most, if not the best, low deposit beta as we've navigated through those interest rate increases.

We have a strong relationship-focused card and payment offering. It's driven high activity and high growth levels. Our debit card portfolio has had the number one Visa power score for 17 straight quarters. The Visa power score takes penetration, activation and utilization to signify the highest-performing debit card portfolio in the industry, and I'd suggest the most profitable one.

On the credit card side, we have outpaced industry growth in both spend and balances over the last three years with a compound annual growth rate of spend of 12% over that period and 9% on balances.

We've also been an early adopter of payment innovations, wallets as well as real-time payments. And we've introduced proprietary products for our customers like our Regions LockIt card controls, which allow our customers to lock and unlock their card transactions in real time from their mobile device.

Additionally, we recently rolled out a great rewards program for our credit card reward customers. Our Rewards Multiplier gives benefit for relationships and has our customers earning additional rewards and multiplying their rewards based on their deposit relationships with the bank. Clearly, a great relationship product for us to continue to grow.

Now, let's talk about how some of these strengths are going to play going forward as we continue to grow the Consumer Bank. First of all, we leverage data and analytics and all that we do. It's absolutely essential for us to understand our customers, understand their behaviors and their desires.

This helps us drive our omni-channel approach, meeting our customers where they want to be met. Omni-channel allows us not only to add more value for our customers, but to do so more efficiently every day. We're utilizing geospatial analytics to drive our market strategies and our thin network strategy that allows us to consolidate effectively and grow efficiently in the growth markets that I mentioned earlier.

And data and analytics are at the core of our proactive guidance, meeting our customers in every touch point with things like ROSIE that John mentioned earlier. We also are using advanced analytics to not only improve our credit experience, but also improve our credit decisioning and our credit outcomes as well as our ongoing credit monitoring to manage our risks.

Our customers expect us to be excellent across all of our channels. We've successfully rolled out digital capabilities and automation that allows our customers to bank when and where they want. We've message to our customers and educated them on the convenience of 24/7 banking, especially for their simple transactions. We've seen extremely strong adoption. This is creating efficiencies for us. It's also allowing us to focus our bankers and our certified bankers on providing more proactive guidance and messaging to our customers, driving more value for them.

90% of all of our customer interactions today are automated or in the digital environment. But 60% of our customers still see value in visiting a branch and spending time getting guidance from our certified bankers. As mentioned earlier, 80% of our sales are generated from our branches and our certified bankers, even as we continue to grow our digital account openings at an aggressive rate.

We're taking advantage of all the opportunities across this omni-channel experience. It's driving more customer value, driving more revenues, and it's doing so at lower cost.

John mentioned ROSIE earlier. This is – we've operationalized a state-of-the-art system and platform to drive smart guidance to every touch point that we have with our customers. It's core to our strategy.

ROSIE updates 350 different characteristics of customers and known prospects every single day. It then drives the next best action to improve the financial life of our customers to all of our touch points, where we can meet the customer as they come into us in a reactive nature with some good sound advice or we can reach out to them proactively to deliver that advice.

ROSIE also benefits from machine learning. It's constantly interrogating the results of these efforts and optimizing both our messaging, as well as our channel delivery to drive the greatest outcomes for our customers and the highest revenue outcomes. Over the last year-and-a-half, we've driven roughly $18 million of incremental revenues through ROSIE and those results get stronger every day based on the machine learning.

ROSIE's driving better and more timely leads and offers for us. It's increasing our sales and our revenues. By nature of the machine learning, it is a continuous improvement platform. And maybe most importantly, it's prioritizing the best opportunities for our precious banker resources to reach out to our customers and make a difference in their financial outcomes.

We've been transforming our retail network strategy actively over the last number of years, and we'll continue to do so. We're delivering a thin network by using customer and market analytics, and the thin network drives high visibility for us with less sites. It increases the size of our branch trade areas and it maximizes the reach of bankable population within those branch trade areas. It's allowing us to consolidate very effectively, retaining revenue and relationships, and grow efficiently in the growth markets that I mentioned earlier.

Between 2014 and 2021, the end of this strategic planning cycle, we'll have reduced our branch count by 16%, while increasing the bankable households within our branch trade area by 10%. A great trade-off, more growth while doing so more efficiently.

This gives you some of the pacing, we front-ended in the thin network strategy a lot of our consolidations. Over the last five years, we closed 284 branches. We'll continue to consolidate, and consolidations will outpace to de novos that we put into our growth markets, although the space between those numbers will start to narrow. And we'll also start to benefit from the revenue growth that we're getting from the de novo investments that we're making in these growth markets.

The metrics tell the story here. As we've transformed the network, we've increased our revenue per branch, we've decreased our branch staff, and we're greatly increasing the population that we can reach in our branch trade areas.

Probably the most important metric on this page is to look at the Consumer Bank efficiency ratio. This strategy has driven an improvement of 500 basis points over the last five years and we will deliver an additional 400 basis points of improvement over the next three years.

This strategy plays out a little different depending on the market dynamics. I'll give you some examples. In St. Louis, we had roughly the right number of branches to cover that metro. Unfortunately, they weren't in the right places. Through a series of consolidations and de novos, we've repositioned where we were in that market. We actually shrunk by three branches, but we improved the growth dynamics of our branch trade area by 190%.

In Houston, it's much more of a build-out. We had 25 sites in Houston; we're adding roughly 40 to that. We're going to increase within our branch trade area by 2.4 million individuals who we can now bank within that trade area.

Atlanta is a little bit of both, some realignment as well as some growth. We'll be up net 24 sites by the time we're finished in Atlanta, will have increased almost 1 million individuals in our branch trade area. And in Orlando and Tampa, it's largely an optimization exercise, getting our branches and our sites in the right places. We'll actually be down in total across those two markets by 30 branches from start to finish, but will have increased the bankable individuals within our branch trade area by roughly a quarter of a million individuals. In every single one of these cases, we'll have improved the growth dynamics of our branch trade area. We'll improve the demographic profiles, improve the density and greatly improve the bankable households within our branch trade areas.

And while we've been transforming our retail network, we've also been transforming our retail delivery model to make banking easier for our associates as well as our customers. I mentioned a little bit of how we're doing it for customers. We're introducing them the 24x7 convenience and they're adopting it in great numbers allowing us to create efficiencies.

But in addition to the migration we're seeing in simple transactions with our customers, we've also invested on digitizing and reducing operational tasks that were taking up the time and energy and resource of many of our associates. This has allowed us not only to get more efficient, but to go to one banker job family, certified bankers in our branches with continuous improvement path who can deliver more proactive guidance and more value to our customers.

Over the last couple of years, we've reduced transaction-focused associates by more than 2,000 FTE, roughly 30%. And while doing so, we've increased our banker interactions by 20%, driving more opportunity while at the same time driving more efficiencies.

We've used sophisticated staffing and scheduling models, and this January, we actually increased our Saturday hours by 60%. Saturdays are one of the most productive sales and revenue-generating days of the week that we operate in. We did this by not adding cost but by redistributing our scheduling and our plans for our branches during the week and we've been able to completely self-fund this. We're already seeing great increases in our net checking growth rates based on these Saturday hours and more banker interactions that we're delivering through an enhanced delivery model.

We continue to invest in digital in everything that we do. As I'd mentioned, it's absolutely critical to our plans to add more value to our customers and focus on high-value interactions with them with certified bankers. Additionally, it allows us to deliver more innovative products and services to our customers. We're now doing instant issue debit and credit cards in our branches, have introduced digital payments.

And from an account opening perspective in the digital environment, we are greatly improving the experience on both the deposit and the credit side, but especially on the credit side. John mentioned a number of the improvements from a standpoint of origination all the way through to booking for our customers and credit. We now have real-time pre-approved credit cards in the digital environment. We continue to make investments there to make it easier for our customers to expand their relationships with us.

And last but not least, we're using the digital environment and technology to protect our customers. I mentioned earlier, our Regions LockIt Card Controls, allowing our customers to lock and unlock their cards, giving them an advanced level of protection in their payments versus our competitors. And we've also added real-time alerts to make our customers conscious of their payments that are going on.

Now I'm going to talk about something that might seem a little contrary based on the way the industry's been going, but we are going to continue to grow our mortgage business. We have a strong operating advantage in the mortgage business that we're going to leverage. The mortgage transaction's still one of the most important transactions that any family in the United States enters into. It's a great relationship product. It's foundational to banking, and it's also a stable and high-performing asset on our balance sheet. But now I want to talk about our operating advantage.

We're consistently rated in the top decile on customer service for both origination as well as servicing of mortgages. We have a direct origination model, as I mentioned earlier, not a correspondent model, driving roughly twice the risk adjusted returns versus correspondent mortgages.

And we have an extreme advantage in our cost structure. Our origination and fulfillment costs are 44% less than the industry average to originate those loans and our servicing costs are 58% less than the industry average, strong cost advantages in this business that are going to allow us to grab share and continue to be profitable.

And it's working. In 2018, through a difficult industry environment, the averages in the retail origination scorecard actually went into negative territory from a standpoint of returns. We stayed in positive territory through that difficult environment. We grew our purchase transactions by 7% in 2018. Our peers shrunk by 5%. And we increased and went up 10 places in mortgage volume during the 2018 year. The strategy is working for us.

Some of the tactics that we're using is we are investing in mortgage loan originators in key markets and growth markets. But we're also aggressively investing in both capabilities and originators in our direct-to-consumer unit, which makes it very convenient for customers to get into the pipeline and then execute their mortgage.

We pair that with strong digital investments. Over 50% of our mortgage applications are now done digitally by customers who are working with mortgage loan originators in the field as well as those who are coming in directly to us. This allows us to get these mortgages into the pipeline quicker, creates efficiencies in the back office and allows us to pull those mortgages through very efficiently and effectively.

We're also using sophisticated data and analytics to identify customers within our base who may be in the market for a mortgage as well as prospects. We're stimulating that demand and we're driving them into the pipeline and pulling through those mortgages.

And we are going to continue to grow our mortgage servicing business. As I mentioned before, it is an extremely efficient business for us. We have roughly $50 billion in balances today. And over the next three-year horizon, we'll grow our mortgage servicing business another $10 billion in balances, and we actually have capacity to go as high as $70 billion from the $60 billion that we'll grow to without any step function increases in our cost to service those mortgages, a strong competitive advantage.

So to close, we're going to continue to focus on leveraging the superior customer service advantage we have with our customers and their brand loyalty as well as their primacy with our bank. We're going to invest in omni-channel to deliver the best experience that our customers can have while at the same time becoming more efficient. We're going to constantly use strong analytics to drive smart touches with our customers giving them the right information at the right time through the right channels. And we're going to use a strong operating advantage we have in the mortgage business to grow our share in that business and our contribution over time.

Maybe the most important indicator to look to from the consumer bank is we're going to build on a 500-basis-point improvement in efficiency ratio over the last five years to have another 400-basis-point improvement in our efficiency ratio as we go forward through this strategic planning timeframe to 2021.

With that, I'm going to close my remarks and I'm going to turn the podium over to my good friend and colleague, Bill Ritter of our Wealth Management Group. Thank you.

William D. Ritter

Senior Executive VP & Head-Wealth Management Group, Regions Financial Corp.

Good morning. I'm really excited to be with you this morning and really share the success that our Wealth teams had since we were last here together. I think we've made a lot of progress as a team. I think we're well-positioned for growth going forward and really have some true momentum as we head into this next strategic plan.

So over the course of the presentation, I'll remind you briefly where we've been, talk a little bit about really what is Wealth at Regions and then talk about the opportunities we have in the next three years. But the key takeaways this morning, if you walk away with just three things, is that to profitably grow, we're going to leverage the uniqueness of our business model and the deep expertise of our wealth bankers.

As John Turner touched on, we're going to utilize the partnerships we have within corporate and consumer to help deepen existing client relationships, bring in new ones and grow our markets. And then, finally, we've made some investments over the last three years, so we're going to focus on execution and really capitalize on the investments that we've made.

So here's a quick overview of Wealth. It's roughly $0.5 billion in revenue, and we break it up into really a couple of different groups. One is our Private Wealth Group which handles the needs of affluent families and individuals. We have our Institutional Services team, which meets the wealth needs of corporations and endowments and foundations. It's supported by our Asset Management team. And then we have our Investment Group, which are 270 financial advisers that work in our branches with Scott Peters' consumer team.

I will say we've operated for the last 100-plus years with a fiduciary standard of care. We think that's a strength for us and we're a little bit different than the rest of the bank in that the majority of our revenue is in the form of fee revenues you'll see on the slide.

Results since our last Investor Day I think are strong. You look at non-interest income, which is up 19%, our profitability is up almost 50%, and our efficiency ratio has improved 430 basis points over the time period.

So what's the Wealth business at Regions? You've seen a similar slide in the earlier presentations and we really look at our core markets as six markets, Alabama, Mississippi, Louisiana, Arkansas, Tennessee and Florida. And 75% of the revenue comes from those three markets. And the growth opportunities are really around the edges, if you look at Texas, the Midwest, the Carolinas and Georgia. But I want to make sure you walk away with we've got growth opportunities in our core markets.

Just a quick story. Earlier this year in a small town in Mississippi that I bet most people in this room has never visited, we had six clients in, and they each brought somebody with them who were not currently doing business with Regions. And these dozen people in this room had over $1 billion in assets and not all of it was with us. So if we have opportunities like that in this great small town in Mississippi, we have opportunities in Birmingham, Nashville, Mobile, Little Rock and other core markets to continue to grow.

John Turner mentioned my backgrounds in consumer, so this slide looks a lot like Ronnie's. I'm a big believer in the relationship manager model. So in this example, the wealth advisor in private wealth serves as a quarterback of the relationship. They then build the appropriate team based on the client's needs. This could include someone in trust, a portfolio manager, somebody in wealth planning or someone from corporate banking or consumer banking to round out and meet all the needs of the customer.

But we share the same passion for the client experience that both corporate and consumer do. And we've been recognized by our clients through Greenwich three years in a row as one of the top client experience wealth shops in the country. And our internal results last year were the best we've ever had.

We take this kind of a one-team approach a little bit further, and on this slide you'll see four things that I think differentiate our wealth shop. And the first is one team and that's broadly one team it's what we call Regions360. And I think the best way to illustrate how this works is two quick stories.

The first is a customer of Scott's comes into the branch. They're a checking-only customer. They come in to cash a check. Scott's consumer banker meets their needs, cash the check, but over the course of the conversation learns that this customer is frustrated with their existing broker. Scott's team refers them to one of our financial advisors and we meet that need. But through the course of additional conversations, we uncover that this original checking-only customer had over $2 million scattered through different providers. And I'm happy to say now that this $2 million is with Regions. That's how Regions360 works.

Similar story in Ronnie's business. Ronnie had a client. Again, his team was meeting all their needs from a traditional corporate banking standpoint. They had loans, treasury and were using Terry's capital markets capabilities, but they had never moved over their $0.25 billion investment account. They just felt the bank couldn't do that. They had it at a non-bank provider. Working with Ronnie's team and our team's expertise, late last year we were able to bring that $250 million to Regions, and again I think we have a much deeper relationship with that client.

Second thing that I think differentiates us is our lower entry point. To be a client in private wealth, you have to have $0.5 million with Regions. We think that makes sense for the core markets that we operate in. We also think it gives us an opportunity with emerging wealth in some of the growth markets that we serve. This is working for us. If you look versus the peers that we were tracking, we're growing third fastest amongst peers. The other thing I'll point out that although our minimum is $500,000, the average account is approaching $1.3 million.

The other strength for us is best thinking, and what I mean by that is we've put in place a consistent investment process and methodology that improves results and the experience for their client, but it also reduces risk for us. I simply mean that if a client with similar goals and similar risk tolerance in Indianapolis will have a similar portfolio to that with a customer in Miami.

And then last but certainly not least, diversity, let me share with you a couple of facts. According to key research, 9 out of 10 women are expected to be the sole financial decision maker at some point in their lives. And furthermore, women are expected to inherit roughly 70% of the wealth that's going to be transferred in the next two generations. And so over the last three years, we wanted to position our team to more reflect what our customers are and what we'd like them to be. I'm also happy to report that not only are we attracting a more diverse workforce, they're very talented. We measure top performers as our top 10% and more than half of those are diverse leaders and bankers.

As you can see from this slide, we offer a wide range of solutions for our clients. To the far left is our financial advisors. You can see that's growing almost 20% last year.

Our high net worth space, you may be asking yourself in the high net worth space, if we have a lower entry point, how are we making money doing it? We benchmark with a third party and you can see that our operating margin is in the top quartile versus peers. We do that, one is we're not a low-cost provider. We think we provide good value and we ask for that for our clients. And second, we have a larger gearing ratio with our advisors than do many of our peers.

And then if you look at from an institutional standpoint, we have some things that make us unique. We're the nation's largest funeral trust. We have the seventh largest corporate trust group. And we also have a natural resources and real estate group, which actually started with some of our institutional customers requesting more diversification. We manage land for trust, institutions and individuals, and we think that's a really valuable service for a bank to offer.

And we've been doing it for over 60 years. This group devotes itself to managing land assets, farmland, properties or timberland. It's a group I really like that these folks while we're sitting here wearing suits and ties, they're wearing jeans and boots out in the outdoors, really getting to understand our clients. And this could be something as simple as helping a family who had their grandfather's farm passed down and we manage it for the grandchildren, or it could be something as simple as talking with a private wealth prospect about their hunting land. Again, I think it's a real differentiator for us and it's something we have some size in. We manage over 200,000 acres of farmland, 1 million acres of timberland and 3 million acres of mineral rights.

Let's move to the technology side. John Owen mentioned this. Happy to report we had a very successful conversion with our Regions Wealth Platform in late 2017. We converted 12 systems onto one to SEI's Wealth Platform. It was an improvement for the associate experience. It was an improvement for our client experience. It reduced our risk and it saved us money in the process.

Something else we put in place in 2018 is what we call rTrac. It's simply an account aggregator. We think that this will allow us to better understand our clients' financial plans and it will also help us understand all the assets that the clients might not have at Regions. It's a cool tool where they can take a look at it either in a hard copy of a report or on their phone to see where all their assets are located and making sure that they're moving forward to hit their financial plans.

Couple of things we're working on in this next strategic plan. We're working on an enhanced customer relationship management solution across Wealth. And [indiscernible] (02:19:45) as soon as we have this out for Wealth, I believe we'll be doing it in Mortgage as well. Again, I think it will be more efficient and allow our advisors to spend more time with their clients.

And the other one on the left is you probably hear it as robo advice. This is something we're looking to put in place over the next couple of years. As you see, Scott Peters' team has attracted more younger clients, so we think that this will help their wealth needs there.

And to hit again, we'll be hiring wealth bankers in Atlanta, Orlando and Houston. We got a little head start in Orlando and already have some good results. Again through our One Team Regions360 approach, we think it makes sense to do this as a team, and I really look forward to this being successful and John and us picking some additional markets to move to in the near future.

So to close, for us to drive consistent sustainable long-term performance, we're going to do these three things: leverage the uniqueness of our business model, utilize partnerships, and focus on execution. And when we do this, we'll deliver 4% to 6% growth in noninterest revenue each of the years of the three-year plan and we'll improve the efficiency ratio by another 300 basis points, which will be roughly 700 basis points over the last six years.

So with that, I'll stop. I think it's time for questions so, Ronnie and Scott, if you'd join me on stage.

QUESTION AND ANSWER SECTION

John Pancari
Analyst, Evercore ISI

Q

Hi. Sorry. John Pancari, Evercore ISI. Just a question for Ronnie on the leverage lending exposure. In terms of that exposure, it looks like the portion of it is related to financial services companies within that. And just curious, does your overall lending exposure include exposure to or lines or loans to financial companies that re financing levered borrowers, or is that included somewhere else in your portfolio?

Ronald G. Smith
Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

A

We do have a limited amount of companies, but very limited within that leverage book that falls into our financial services area and through Regions Business Capital. We do have some exposure there, but very heavy asset-based reviewed and also has to meet that underwriting criteria. But it's not a meaningful number for us from an overall outstanding loans standpoint. But, yes, we do through Regions Business Capital and through our financial services area as well.

John Pancari
Analyst, Evercore ISI

Q

Okay. And then one follow-up is, can you just [ph] remind what is (02:22:55) the size of your total shared national credit portfolio if it all falls under you, and then also how much of that shared national credit portfolio would be considered leveraged in terms of credit? Thanks.

A

Yeah. So on the shared national credit portfolio, $20 million of loan balance is outstanding – $20 billion of loan balance is outstanding today. And on the leverage lending side, it's 80 – I'm sorry, say that again, 80, yeah, 80%.

Christopher Spahr
Analyst, Wells Fargo Securities LLC

Q

Hi. This is Chris Spahr with Wells Fargo. So can you expand a little bit on the thin branch strategy and what parts of technology in digital banking are you using to do that? And would you – and how does that relate to the consolidation like where we are in that process, how much it's [indiscernible] (02:23:44) will be consolidated? And then the last part is the 400 bps of efficiency improvement, can you break that down, like consolidation, technology savings and revenue initiatives? Thank you.

A

Yeah, I'll do the best I can with all those. But the thin-network strategy, first to talk about technology. So we were actually very early on a bank in embracing front image capture. And what front image capture is essentially the ability for – in those days any way, tellers to do the transaction right on the counter and it to run straight through in a very efficient way using imaging capabilities. That front image capture capability has been extended to all of our bankers on their desks. So our bankers can actually take care of all noncash transactions with our customers.

That in combination with going to one bank or job family in our branches has allowed us to become incredibly efficient. So if you think about running any branch as a contained unit, having two job families in that branch makes it much less efficient where you have latency on one side or the other. By combining them together, we now have no latency in our branches and we've driven down our associate and banker costs while improving the capabilities of those bankers.

Additionally, we've introduced video teller machines as well as have the most sophisticated ATMs, as well as in combination with all our digital capabilities and our mobile capabilities that we have for our customers. So those have been the big drivers kind of from a technology perspective as well as great customer adoption. So we focus our bankers on also being ambassadors for our digital environment. We have digital coaches who are signed in every one of our branches, and their job is to continually educate our customers on how to use those digital capabilities.

From a standpoint of the efficiency ratio gains going forward, the 400 basis points, we don't really have it broken out specifically the way you said, but I will tell you we'll get material gains, one, from continued efficiencies of our staffing levels in our branches as we continue to involve the model and see migration go to our other channels.

We'll also get benefits from now our de novo starting to take hold in our growth markets by adding additional revenues into the mix as well as consolidations. Over the next three-year timeframe right now in the plan, we have roughly 100 consolidations and roughly 75 de novo starts in our priority markets. But I would say that's a living strategy that we look at all the time based on customers' behaviors and market dynamics.

Stephen Kendall Scouten
Analyst, Sandler O'Neill & Partners LP

Q

Hi. Stephen Scouten, Sandler O'Neill. I'm curious if you could talk about the health of the consumer and really what's leading you to push out of indirect auto and looks like push deeper into mortgage and how you think about those two within the context of the health of the consumer and then how you can grow that book overall with the headwind of indirect auto. Sounds like third-party relationships are kind of peaked out so how we can think about net growth there?

A

Yeah. I'd like to start with we don't want to grow just to grow. Our indirect auto business essentially we weren't making any money there. So we want to deploy our capital into things that are going to give us healthy returns, and this move out of indirect auto is going to allow us to put that capital to work in other products and businesses that make sense.

From a standpoint – another element on indirect auto is it's not a very strong relationship product, doesn't provide a lot of opportunities for expanding those relationships. The mortgage product, on the other hand, is a relationship product where we get a lot of opportunity to grow the overall customer profitability with those assets, and it's a good strong performing asset on our balance sheet as well.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, hi. Ryan Nash from Goldman Sachs. Ronnie, during your presentation, you talked about hedging services, capital raising and advisory service being the drivers of capital markets. And when I think back over the past few years, capital markets has been the main driver of fee income growth across the firm if you look over a three-year period. So, I guess the question is where are you in terms of the build out of capital markets or penetration across each of those three?

And then, second, John had talked earlier about some potential for nonbank deals when I think you guys did for Sterling, BlackArch. What other capabilities could you look to add over time to continue to build out the capital market business?

Ronald G. Smith
Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

A

Sure. I'll lean back into Terry for the answer to the first part of that question, will come back to the bolt-on acquisitions, too, Ryan.

Terry Katon
Executive Vice President & Head of Regions Bank Capital Markets, Regions Financial Corp.

A

Sure. Thanks. One of the areas we had on the slide here was asset securitization. That's an example where we've just started that business in early 2018, went through some hiring process, internal approvals. And we launched the product in the third quarter of 2018, starting to see customer adoption there, getting good traction. We're in the process of hiring additional talent for that business.

So I think to your point, we're not going to see the kind of 29% CAGRs that we've seen in the past. But we do still see adoption by our clients really across our product set. I didn't mention this, but 2018 all of our lines of business were up. And so we're seeing better penetration and we're still introducing new products. So, again, not the 29% growth you've seen in the past, but the numbers are getting bigger and we still believe there's good healthy growth ahead.

Ronald G. Smith
Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

A

Yeah. Ryan, if I go back to other bolt-on acquisitions, we look at it a lot. There's always those things from a cultural fit that really make it difficult for us to pursue all of those, but we are very active in the space and we do look for opportunities to focus back on our clients and the needs that we keep hearing from them or where they are finding other financial service solutions.

Unverified Participant

Okay. Great. We'll take a 15-minute break.

Unverified Participant

15 minute break.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

Yes. Get back together 5 after 11. Thank you.

Unverified Participant

Great. Thank you.

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

Okay. We're on, we're live. [ph] Steve (02:30:17), are we on? Can you hear me? All right. If everybody will have a seat, we'll get started again. Before I introduce our next presenters, Ronnie Smith would like to clarify John Pancari's question or answer to the question right?

Ronald G. Smith

Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

[indiscernible] (02:30:44)

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

You're on.

Ronald G. Smith

Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

Yeah. So, the question that was asked was about our leverage lending position. What we heard was, what percent of your leveraged loans were SNCs? And the answer to that question [ph] Martha, (02:31:01) is 80%. And so to clarify John, I think what John was asking as we verified at the break was, what percent of your shared national credits were leveraged? And basically we have $20 billion of SNC balances outstanding today. Our leverage amount is $5.5 billion if you were to take that percentage of those down [ph] Martha (02:31:31), it's about $4 billion that would – of the leverage portfolio that's in the Shared National Credit books. So, I hope that makes sense and clarifies that, so.

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

Okay. Thank you, Ronnie.

Ronald G. Smith

Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

One other point, John, and on his first question.

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

More clarification.

Ronald G. Smith

Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

Yeah. Just one more clarification on the first question that John asked, it was about those clients who are doing business with leverage entities. I mentioned it was minimal. It is very minimal. We have three relationships like that. Two of those are asset base and the other is a very strong sponsor. So, I just wanted to clarify that question. I think we heard it different John than maybe what you intended to ask or we answered wrong. So, John, thank you for that.

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

Yeah. Thank you. Great. Okay. I will introduce our final two presenters. First, is Barb Godin, who is our Deputy Chief Risk Officer and Chief Credit Officer. Barb has over 45 years of experience in the financial services industry. Previously prior to joining Regions in 2003, Barb worked for Scotiabank and KeyBank, much for experience has been around lending and credit activities. Barb was named our Chief Credit Officer in 2010 and working closely with Matt Lusco and others. Many of you know that Barb has been providing great leadership, helping us continue to build out a really sound risk culture that we think is going to produce consistent and sustainable results over time.

Our other presenter is David Turner, our Chief Financial Officer. Prior to joining Regions in 2006 David began his career in public accounting working for both Arthur Andersen and KPMG, and I guess it's somewhat ironic. David was also made Chief Financial Officer in 2010. So he and Barb got their positions at particularly challenging times in the industry and for Regions. So we're happy to have both of them sort of close the day for us, as they provide a great leadership in helping us build the bank that we have become and putting us in a position to deliver really consistent sustainable results. So Barb I'll turn it over to you. Thank you.

Barbara I. Godin

Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

Thanks very much, John, and welcome everyone. Glad you're here today. I am absolutely thrilled for what, you need to know, is to be able to speak to you on the great progress that we've made on our journey on credit risk management.

I want to talk to you about the three takeaways that we have. But generally we are focused on continuous improvement in credit risk management and we are driving for excellence. Simply said, we are upping our game every single day. We significantly enhanced our risk infrastructure be it on people, on processes, on data, around analytics. And we've created a much more integrated and holistic risk management framework, as well we've upgraded our talent. Just since 2015, we've upgraded almost 20% of our senior credit team, with many of the new hires coming in from money center banks as well as from several across the broader financial industry.

We believe that understanding credit risk and providing a holistic risk management framework is absolutely paramount to what we do. As you can see on the slide we've established various risk pillars, within this framework that combine robust data, analytics along with human subject matter experts to support it.

Now the pillars here show how we're organized, and I'll talk a little more about these pillars and how the comprehensive changes we've made at risk management over the past several years have really enhanced our overall risk profile.

We manage credit risk with a collaborative approach that aligns people, processes, data, and analytics and provides better consistency of outcome. As an example, our credit portfolio management team is really closely collaborating with our risk analytics team, and all of the other data scientists we have across the bank and they stress test our portfolios using a multiplicity of different scenarios. We also have a geospatial team and they provide us with proactive identification of credit risks in the event of a potential extreme weather event or any other catastrophic event.

All of this allows us to fine tune both our concentration limit framework, as well as our portfolio shaping strategies. Now this coupled with a capital commitment working group that Ronnie Smith spoke to you about, all of this is incorporated into our strategic planning process. Our integrated credit risk framework that you see here is core to how we manage credit risks and it's led us to greater risk intelligence. We know that neglect of any one area can lead to less than optimal results. We certainly saw that in the last recession. With this in mind we built and we evolved an integrated framework that we believe holistically addresses risk and reward and proactively helps us to not only understand risk but also to manage and to mitigate that risk.

As you've already heard from our three business leaders, that's Ronnie, Scott and Bill, one major facet of our framework is concentration limit management. Under industry concentrations, you can see the number and the level and the limits we have in place. Now we slice this in a lot of different ways. We have limits on industry, geography, product, as well as on single-name concentrations. We disaggregate. We manage these limits at a very detailed level within our businesses but then as well we also aggregate them at the top of the company and manage them there. [indiscernible] (02:37:55) for each dimension very carefully and we try to gather the limits and our risk appetite, as well as our capital, our emerging risks, our product expertise and our market performance.

Most importantly, we abide by these limits. Signals from this framework have resulted in us doing active portfolio shaping in energy, education, healthcare, multifamily and this has resulted in some portfolio reduction in some of the sub-asset classes as we've done a remix there.

Here's a great example of concentration limit management. A multifamily was strategically de-risked from 2010 to 2012, as we focused on decreasing our investor real estate concentration. Then we saw growth that began to occur in the 2013 and 2014 timeframe. But as we assessed the oversupply in certain urban core markets, we pivoted and we imposed tighter limits and tighter construction underwriting parameters in any markets of concern. Today, our multifamily portfolio exhibits really strong asset quality metrics and that's due to our focus on high quality developed to own relationships, and average upfront equity contributions have really held up this cycle, lending strength on a project by project basis and providing us a lot of comfort around this portfolio.

So clearly, however, this framework impacted loan growth, but it was the appropriate course of action for our risk profile. The concentration limits we have in place today have led to a very diversified book. Our wholesale book, as you can see here stands at almost $52 billion, with our largest segment being other which is really just a compilation of a lot of different products.

On the consumers side, residential mortgage and home equity make up the majority of the book, and I'll talk about both of them a little later on. What you can see however is that our overall wholesale book is pretty granular with a focus on client selection. Our consumer book is high quality, and here, as in our wholesale book, we focus on risk adjusted returns. Another example of our integrated framework is in our expansion of our portfolio warning indicators. Now pre-crisis we track, we monitor a lot of portfolio metrics. But it was really clear to us that even more granularity was necessary. So as such, we worked with our in-house data scientists and we set additional top of the company business unit product and sub product limits. And today, we have well over 100 of them in place. These indicators have provided us with deep insights on portfolio attributes, as well as providing predictive insights through the use of both internal data, as well as external macroeconomic and industry-specific metrics.

So I've talked a lot about our early warning indicators and our concentration limit management. And that's because it's absolutely core to strong credit risk management, and it's something that we spent a lot of time reviewing and managing really closely. We deploy our capital based on a comprehensive evaluation of credit risk across several different measures. We assign portfolio values, that's both adds as well as deducts based on things like utilization, expected loss, and economic capital. And we focus on relationships where we have both the expertise and capabilities and where the return exceeds the risk which is in line by the way with our overall strategy.

We also have a comprehensive set of tools to support our credit risk appetite and that's intimately linked to our strategic plan. Said another way, credit risk has a place at the strategic planning table. It's informed by a combination of risk and reward, as well as by portfolio performance and enhanced by our loss mitigation strategies. Further, our early warning indicators help us to address any emerging risks that we see. This linked approach helps make us much more risk intelligent.

Now, let me spend a few minutes discussing how we have transitioned our culture to drive active portfolio management. Let me start with how we're doing this on a handful of credit portfolios that are currently top of mind and certainly, top of mind for the industry at large. As Ronnie noted, leveraged lending, it's a portfolio we spend a lot of time on and one that we monitor really, really closely. Now, there's a myriad of ways to look at what a leveraged loan is, as there is no real commonality in the industry. We use a definition of three times senior debt or four times total committed debt, and we don't require that a loan meet a purpose test, such as an acquisition or capital distribution to be called leveraged.

We also include all investment grade credits and based on our definition, we manage about $5.5 billion of loans and leveraged book. However, Moody's recently conducted a study on leveraged loans and based on the definition that they used in an industry report they say we have about $3 billion of leveraged loans. Notwithstanding, if it's $3 billion or $5 billion or it's something in between, our leveraged loans are reserved for our high quality C&I customers. And where we have sponsors, we underwrite both the sponsor, as well as the client. We also centrally underwrite these credits, and we have a dedicated team that does that. We closely monitor the book with strict policies including the maximum size that we let this portfolio get to.

As well, we have limited participation in the [ph] highest respect (02:44:08) segments of leveraged loans. That being covenant lite and Term Loan Bs. More importantly, and most importantly, it's simply not a strategic growth objective for us.

Last Investor Day when we were here, we discussed energy and what we thought the losses might be given the collapse in the price of a barrel of oil. I'm happy to say the losses we experienced were well in line and they were within our expectations. We believe our results demonstrate our sound underwriting discipline, our limited risk appetite, our active portfolio management, and our concentration limit management.

As John Turner indicated a little earlier, we're the largest bank in the Gulf South and nonetheless we abided by our limits and we didn't have an outsized portfolio. Within our energy group, we manage the book with an experienced team of in-house engineers, geologists, relationship managers, and credit specialists.

And we also understand the cyclicality of this business and have a really long track record in the industry. We've been in it for over 50 years, by the way. We've also remixed our book, and we have a focus in the past several years on the lower risk upstream and mid-stream segments.

As previously mentioned, we went through an extended period of de-risking to establish a very solid investor real estate portfolio. We are now growing this book, but we're doing it in a very thoughtful and a very prudent fashion. Further, we've refocused this business on owner investors, as well as term lending versus construction. As you can see on the slide, equity continues to be a critical and a required – it's a required component of underwriting. And here we focus on the upper end of the market, as well as on well-capitalized clients.

So let's talk about consumer for a minute. Our consumer real estate focus is a really high quality book, and it's underscored and you can see here by our FICO scores, as well as our loan-to-values. Our residential mortgage book, it's a super prime book and we don't originate subprime loans. Now for that matter, we don't originate subprime loans in our home equity book either. On our home equity lines, we have a maximum loan-to-value of 80% and we don't offer an interest-only option. Additionally, we know there's been some concern about reset risk. Our home equity book has less than 10% of our loans resetting over the next three years. And what we do is we contact our customers six months in advance of their reset date, to make sure they're not going to have a problem with the payment.

Lastly, our consumer unsecured book totals approximately $4 billion, and it's tightly managed and underwritten by dedicated teams. You can see the metrics summarizing these portfolios as well as a couple of points on how we manage the risks. For credit cards, it's comprised of prime loans where we have a focus on extending offers to existing customers, in our third-party lending portfolio, we have several loss sharing agreements in place and that really helps us to mitigate the risk. And for the consumer unsecured book, this is a high quality portfolio and it's offered in our digital channel, as well as in our branches.

In fact in our overall unsecured book, everything here, it's comprised of over 85% who are homeowners. I would like to finish with a few points on credit that are clearly part of who we now are. We have a strong credit risk culture, and we understand that credit is about consistently and constantly paying attention to and managing the details.

Our goal is to produce positive, sustainable and consistent credit outcomes, risk is top of mind for all the associates and we form business risk committees and they're chaired by the head of the line of business, as well as by risk. And we identify, manage, monitor, mitigate, and report on both existing, as well as on emerging risks. At our last Investor Day, I told you about the great progress we made as it relates to risk and we're building on it every day.

But we do acknowledge that we had some historical credit issues last cycle, that led to a number of process, policy, and, yes, even people changes. However we are laser-focused on making sure that never happens again. Our portfolio is diversified and our performance reflects this, as well as demonstrating all of significant improvements we have made in our risk profile. Our underwriting, as I said, is consistent and it's disciplined. And we focus on industry and geographic concentrations, as well as all of the associated risk adjusted returns.

As we turn to client selection, we know one thing. It always starts with client selection. You simply can't underwrite and structure a weak client. We have specialized teams in place, including underwriters, relationship managers, and credit specialists. And they all have deep expertise in their specific industries and they all spend their time understanding our client's needs, their cash flows, their companies, and the industries they're in.

We make analytically informed decisions and we are continuing to invest in our analytical infrastructure. We also stress test our loans and that's to ensure we understand the risk and we understand the reward and we price for that risk.

We also manage through the cycle which means we underwrite based on the view and make sure our loans perform today as well as in a more challenging economic environment. That's because we want to create a portfolio that has low variability to it.

So to summarize, we have a strong and resilient credit risk infrastructure. This enables us to better anticipate and to be proactive with both current as well as potential future credit concerns. That's because we made strategic investments in our people, our processes, data infrastructure, and in our analytical capabilities. And we understand that every associate in the company is a risk manager. It's part of who we are today. It's also why we feel comfortable with our three year view [ph] on loss (02:51:13) staying within a 40 to 65 basis point range. And please recognize that these estimates include the potential impact of an economic downturn during this time.

So with that, I'd like to turn it over to David.

David J. Turner, Jr.

Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

Okay. Thank you, Barb. Good to be with you today. And what I'll try to do is wrap it up and show you when we pull all this together what it looks like from a financial perspective. Generating a consistent long-term performance has been what we've been about for a long time. And we think we put together a good strategic plan for you over the next three years. You've heard from John and our business leaders on their very specific strategies that we're putting in place to give the kind of returns back to our shareholders. And so I'm going to pull that together financially and then I also want to talk about how we're going to manage interest rate risk over this next three year period of time given that we have a little uncertainty with regards to fed policy and the economy.

There are five things I want you to take away from the financial presentation today along with the numbers at the very end. We spend a lot of time on focusing on risk adjusted returns. We are not in the business of having nominal growth in the balance sheet whether that be from loans or deposits. We are not in the business of growing nominal revenue. And we're not in the business of growing nominal net income. It's about the right kind of growth with the right return characteristics. And if we stay focused on that we might not grow as fast as others but we will give our shareholders an enhanced return on their investment. Critically important to us.

We're in great markets. We have a competitive advantage in our deposit franchise. It has been a competitive advantage for us for a number of years. We just started to see the benefits of that starting in about the end of 2016, as rates began to increase and we could extract the value out of our deposit franchise. It not only provides great liquidity for us but it provides great profitability for us as well. As I mentioned, interest rate risk management is going to be critical for us to manage over the next three years. We have a very solid asset liability management committee and I'll talk a little bit about what that looks like in a bit.

We have had very robust capital position, very strong, we have a little bit of excess still. We're working towards getting that down to our optimum level this summer but we also generate a lot of capital. And as John mentioned to you earlier, we're about organic growth. We want to reinvest our capital generation back into the business. We want to have a nice dividend, but we also have capital that provides some flexibility to us. But if we can't deploy it, we're going to give it back to the shareholders in the form of share repurchases. We're going to talk about that in a bit.

And then finally, when credit normalizes, we don't have lift from interest rates. We kind of optimize our capital. The question is what do you do from here? How do you continue to grow appropriately and provide the kind of returns that our shareholders expect? Simplify and Grow is the mechanism that we will have that we started in the latter part of 2017. And we'll show you – you've seen a little bit of that already from John Owen but it's really important to us going forward. Now three years ago, [ph] it was (02:55:02) November 2015 we're in this very room where we laid out our three year strategic plan for you.

And I'm happy John showed this to you in terms of meeting and achieving all three of these risk adjusted return of 16.5%. It's on an adjusted basis, efficiency of 59.3% and you can see earnings per share growth of some 24%. The carve-out [ph] NIM (02:55:30) – the favorable impact of tax reform is 19%. Nonetheless we met the targets that we laid out at Investor Day. And we're very happy to report on that. So how we do that? We stayed focused on three strategic pillars, growing and diversifying revenue, managing our expense base and deploying our capital appropriately. So on growing and diversifying revenue, clearly leveraging our competitive advantage on deposits in a rising rate environment was a key driver, continuing to make investments in people, businesses, products, to grow revenue and as you can see over the three years, we grew revenue some 12%. We're very happy with that.

We're in a very competitive business, commodity business. We differentiate ourselves on service, if you haven't picked that up from today. In a commodity business you better become really efficient. And we're happy that we've worked on this growing revenue but also watching our expense base and improved our efficiency some 480 basis points to 59.3%. But that's not good enough. We're not finished there and I'll show you what that looks like.

We have to control head count, we have to control square footage if we're going to attack efficiency and we did that and we'll do it going forward. From a capital standpoint again, not growing for growth's sake, growing because it's the right thing to do with the right return profile, allowed us to free up capital, to divest the businesses and products that weren't giving us kind of return we wanted and redeploying that or giving it back to our shareholders. Evidence of that is in 2018, we returned some 154% of the capital we've generated back to our shareholders in the form of a dividend or share repurchase. So staying focused here is what allows us to give you the return that you expect.

Now we have to go back three years and times are uncertain in terms of what might happen for three years. As you can see here, if you look at 2018 on the right hand side of the slide, you can see the 10 year finished about where we thought it would finish. But along the way, you can see the rate environment wasn't quite what we anticipated and therefore we had to adapt and overcome. We had the talk we want to do something different. So what did we do? A number of things, but a couple of them I point out.

We had a $300 million expense program that we had established and that wasn't good enough. We went back to the well, and we added a $100 million to that program to have a $400 million expense program which got us to the end of 2016 when the rate environment finally started to increase. We could begin to extract the value out of our deposit base and grow net interest income and the resulting margin. The point of this slide is not just that we got to the three year targets that we laid out at Investor Day, that's important and we're glad we did that. But three years is a long time and we don't know exactly what will happen, but what we're telling you is we're going to make a commitment for these three years and we're going to get there. We may have to do it differently than we think today, but we'll toggle, we'll adapt, and we'll overcome. So we're excited about the plan that we're going to put forth.

So let me transition into the next three years and tell you a little bit about how we're going to manage a key component of our income statement, which is net interest income. Net interest income as you know represent 65% of our revenue. Therefore we better be very good at managing our interest rate risk.

As we think about our outperformance and net interest margin over the past three years, the driver of that is the core deposit franchise you've heard about numerous times today. It will be a key component, a key driver of our NIM outperformance for the next three years as well.

As we thought about how we manage interest rate risk, we went into this environment with the expectation that we're going to have growth in the economy. And as a result of that growth in the economy that interest rates would begin to rise and we would start to see the value of our deposit franchise, which we have talked about forever being our competitive advantage. You just couldn't see it because the rate environment was so low.

So we were able to do that and you can see our outperformance in margin. As we think about the next three years, we have to think about how we're going to manage that interest rate risk, given the fact that the economy might be slowing. So for us, over the next three years, we have GDP this year of about 2.5%. We think we'll grow at about 2% in 2020 about 1% in 2021. Those are in the back in the appendix if you haven't already seen them. That's our base case.

So we are not forecasting a recession, but we are forecasting a slower growth environment. Therefore, as that begins to happen, the risk of having rate cuts or rate reductions becomes more important to manage for us. Therefore, we're doing two key things: one, continuing to focus on risk-adjusted returns. We're not going to grow nominally. We're going to grow when we get paid for the risk appropriately.

The other is beginning to enter into our hedging strategy using forward-starting derivatives, primarily interest rate swaps but some floors. Those forward-starting swaps and floors really begin in 2020. And the reason we did that is because we wanted to be able to preserve the ability to extract more value as the possibility of rates were going to increase here in the near term. Now, as of late, we're in perhaps a flat rate environment going from here. I'm going to talk about that in just a minute what it might mean to us. So we want to protect our competitive advantage called our deposit costs.

So we have a very strong balance sheet. It's prepared for an evolving environment. It's a very simple balance sheet. On the loan side, on earning assets, 75% are loans. If you factor in hedging, we're about 50% fixed and 50% variable. If you look at the liability side of the balance sheet, 85% of our liabilities are deposits. That's the competitive advantage that we see. That large deposit base really adds to our sensitivity.

If you look at how we've been able to leverage the deposit base, you can see our beta and this is our overall funding beta, which we believe is more relevant today. It's been 22% cycle today. Now we believe, based on our expectations, that that beta will be somewhere between 30% and 40% when we get to the end of the cycle.

Now even in a flat rate environment, we do have some sensitivity that will be coming through in the form of repricing of loans and reinvestment of our maturing securities, some $13 billion over the next 12 months; as you can see, nine of that in the form of loans and four of that in the form of securities. So we believe we're going to continue to be able to grow net interest income and the resulting margin even in that environment.

So here again, our solid deposit advantage and you heard Scott Peters talk about this earlier. Of our deposits, two-thirds of those are retail deposits. When we say the word retail, we're talking about consumer deposits and wealth deposits. Of the consumer deposits, 60% of those are from customers that have been banking with us for over 10 years, very loyal, very sticky, price insensitive deposits.

You couple that with where they're located and the fact that we continue to grow what's core to our franchise and that is the consumer checking account and the business operating account. That's what our teams go to market. They think about the right side of the balance sheet first than the left side of the balance sheet. And it has served us well thus far. We think it will serve us well over the next three years. So it's how do we grow those core relationships.

As Ronnie mentioned, I thought it was a great analogy. Every one of his business customers has a deposit relationship but not everybody needs a loan. And so we want to make sure we capture those [ph] two (03:04:55) deposit relationships. We're in very strong markets. We are the strength in 70% of our markets. We are the money center bank. And as a result, we've been able to position ourselves to capture higher growth percentage than might be happening in that market because of our dominance.

Now, there's another side of this sword and that is if you look at our deposit cost at 34 basis points that compares to peers at 64 basis points. This is the fourth quarter. So as you think about the environment that we're going to be potentially going through, if our deposit costs are here and our peers are here, win rates perhaps go the other way. They have a mechanism of being able to protect their net interest income and their margin by reducing deposit costs whereas we don't have that.

Therefore, it's incumbent upon us to start entering into hedging relationships to help protect our net interest income and margin. And that's why we've started to enter into these forward-starting swaps that we began in 2020. You know we have a very strong liquidity position, again provided by this good core deposit base. You can see our loan/deposit ratio of some 88% right there in the middle of the peer group.

But what's important on this slide is the right side and that is the level of wholesale or unsecured debt to total assets being half of our peers. What that does is it provides flexibility for us to be able to manage the deposit side. It gives us diversity of funding. So to the extent that we needed to draw down on wholesale funding, we have that capacity to do that to make whatever investments we need to make.

As a matter of fact, you saw us do that in the latter part of 2018 where we took down an unsecured bank debt instrument. We paid up for that relative to a deposit. But what we did is we had savings in FDIC expense. So from an income statement standpoint, it was a push, but we freed up a lot of liquidity. So when we have those opportunities, that's what we're going to do. So we're in very good shape here from a funding standpoint, a lot of flexibility. You heard John Turner talk earlier about our ability to gather deposits. We're good at that. So we feel very good about our liquidity position.

We do have potential benefits from LCR to the extent that we can reposition some high quality liquid assets. Ginnie Mae securities would be an example where if LCR went away, perhaps we could redeploy those in higher earning securities. We also had some deposits that we ended up having to price at a level that was inconsistent with the customer's expectation. So they would move those deposits to banks that weren't subject to LCR that maybe we could get those back in time.

So let me talk about our margin expectation over the next three years. The goal is to try and drive out the variability of our margin. If you look at this slide, we believe we can operate somewhere between 3.4% and 3.7% on net interest margin over the next three years. As you think about – let me tell you what that's predicated on, on the upper range of 3.7%, we would experience modest GDP growth, we would have a stable credit environment and as a result, the expectation would be another two, maybe three tightenings over the three year cycle, such that Fed funds would approach 3% as well as the 10-year Treasury. That's also predicated on the balance sheet growth that I'll talk about in just a minute.

The lower end would come about to the extent we had a recession similar to the post-World War II recessions that we've had in the past, excluding the Great Recession. There, Fed policy reverts to near zero and the 10-year declines is something that we haven't seen many times of 1.5% or below. So it's important that we take that variability out. You can run those through your models. Today, we're at 3.55% and so a question may be what happens if we're where we are right now and just kind of stay flat for an extended period of time.

Now we believe we have some asset sensitivity that will push through, as I just mentioned on repricing and reinvestment of the securities book. So we think we can continue to grow our net interest income and margin. The bigger driver of that will be earning asset growth versus carry coming through from a rate standpoint. So we think we're well-positioned in any plausible environment that we may get over the next three years and are excited about being able to drive out that variability.

So we've had to make some pretty challenging decisions over the last three years and we will continue to challenge ourselves going forward because our business needs to continue to focus on risk-adjusted returns. I won't go through all of these but a couple of those Scott mentioned earlier. We didn't renew a third-party contract from a floor arrangement we had on indirect auto because the returns were unacceptable.

Now, we just decided to discontinue our indirect auto originations because the returns are unacceptable. We will be in the direct auto business but not the indirect. We sold Regions Insurance Group again because the return for us was unacceptable. And we didn't see a path to being able to get these businesses to the kind of return that we really wanted to have nor were these businesses particularly synergistic. You don't have to have every product giving you [indiscernible] (03:11:24) in return if there's synergy involved.

Here, these were one-off transactions, which is why we sold. What that allowed us to do is to make critical investments into our business where we do have a competitive advantage. Mortgage servicing rights, we bought almost $16 billion of mortgage servicing rights over the last three years because we're good at it. We're a low cost operator and we have excess capacity still in our mortgage servicing operation, so you should see us continue to make investments to grow there.

We've been able to invest in talent and technology, talent in the case of corporate and commercial RMs, wealth advisors, mortgage loan originators. So we've been able to take opportunities, cut cost, which generates the ability for us to reinvest back into our business.

From a capital standpoint, we have a very robust capital planning process. We're very proud of our capital planning process. It integrates risk management and strategic planning in it. The result originally was this submission called CCAR that we've had. We're one of the very few banks that never received an objection to a CCAR submission, very proud of that. It's what gave us and gives us the confidence that our capital planning process is sufficiently robust. It's also provided us the confidence of being able to return $5.4 billion to our shareholders over the past three years, a tremendous amount of capital for a company our size, while maintaining a very solid capital level.

As we think about positioning our capital stack, we've talked to – this is not news to any of you, but our common equity Tier 1 goal target is 9.5%. That's derived mathematically. We start with our post stress limit of 7%, and why that's important is we want to have capital that can sustain [ph] whatever (03:13:37) environment we may have, so we can sustain our dividend. We don't want to have to cut our dividend like our industry did in the past.

From that, we add 2% for our quantitative buffer based on the risk profile that we have at Regions. And on top of that, we add 50 basis points for our management cushion. So as we think about a lot of different constituents – obviously investors, rating agencies – we want to make sure that we're considering all aspects of the expectations there so that we can have a robust capital framework. We want not to have too much capital because it hurts our return. We can't have too little capital and not get the ratings upgrade that we're still looking for and expect over time. So having this amount of capital provides that flexibility while returning appropriate returns to our shareholders.

Let me talk a little bit about how we think about capital allocation. This slide shows you how we allocate the capital we generate in a given year. So, first and foremost, you've heard numerous times today that we are focused on organic growth. That will always be the case, its number one. If we have a place to put our capital work organically, that's what we're going to do. We also think through strategic acquisitions, bolt-on investments like we've had with capital markets over the years. BlackArch Partners would be a case. We'll continue to look for that and we'll consume a little bit of capital, not a lot.

The second is to have a solid dividend. We'd like to pay out 35% to 45% of our income in the form of a dividend to our shareholders. Today, we're slightly below the 35% level and you should expect us to approach the middle to that over to upper end of that over time. It's all about setting the dividend that's sustainable regardless of any plausible environment that we have. I'm happy to report that over the past three years, our dividend increases have resulted in a 26% compound annual growth rate, very proud of that.

And importantly lastly, share repurchases. That share repurchases gives us the flexibility to invest in businesses, to invest in products and our services that are bolt-on acquisitions to the extent opportunities arise, in particular in a downturn. So we will continue to optimize our capital. We generate excess capital and cannot put it to work efficiently, we're going to give it back to the shareholders so we don't want to bloat our capital base. What that means is, our shareholders should expect a return somewhere in the 9% to 12% range each year. Now this particular year, we're not optimized, so we still have more capital to buy back than this. So for the near term that'll increase at 9% to 12% just a bit.

Simplify and Grow, I'm not going to go through this whole slide, but what's important here is that we create more efficiency, become more effective in making banking easier for our customers. But financially, what it means is we're able to reduce cost base to reinvest that to grow revenue. At the same time, a portion of that goes to continue to improve our efficiency rate.

So we're looking at continuing Simplify and Grow. John mentioned it, but I want to reiterate it. This is not a program. It's not a two or three year kind of thing. This is what we do each and every day because John Turner's asked us how do you get better every day regardless of what you do? So what does all this mean financially? We were hoping this to be the great reveal, but you got slides early. So any question [indiscernible] (03:17:45)? I couldn't help myself.

So you know for 2019, we expect loans to grow in the low-single digits as well as over the three year period time again, commensurate with our expectations of GDP, as I mentioned to you earlier. We think with that growth and where we think the rate environment's going to be in 2019, we can grow revenue some 2% to 4%. Control our expense level to be relatively stable and we generate positive operating leverage obviously as the difference. Barb's already gone through charge-off, so I won't talk about that.

So what does it mean for the three-year period? These are the commitments that we're making. 2021 adjusted return on tangible common equity, we believe, can range somewhere between 18% and 20%, as we work on both the numerator and the denominator. We will need to become more efficient. We're at 59.3% today. We're happy that we met the goal but 59.3% is not good enough for us. So we're shooting to have an efficiency ratio under 55%. And guess what, when we get there, we'll have another goal. So first things first, get to below 50%.

And it's important that you leave with this. Our expectation is to continue to generate positive operating leverage each year over the next three years. We've done that for the past three years. We're going to continue that. So we're very excited about opportunities to continue to grow our company to provide an appropriate return by staying focused on these five areas here.

And with that, we will stop and Barb will come back up and John and we'll take your questions.

QUESTION AND ANSWER SECTION

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

[indiscernible] (03:19:46) Matt Lusco to come up and join us, our Chief Risk Officer as well. Okay. Jennifer, we'll get you a microphone.

Jennifer Demba
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. My questions are for Barb. You talked about the early warning indicators you have in place, a lot of them and more in the last few years. What's flashing yellow and red to you right now?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

Right now, the restaurant industry, it's been challenged, and that's the casual dining segment. We have in our overall casual segment, we have about $700 million, give or take, and of that, you have fast casual which is a smaller percentage of that. So that's doing some flashing because people's tastes have changed, and we're following that.

We're keeping an eye on things like ag and what's happening there and, of course, energy continues. We just want to make sure we don't take our eye off that ball. But in general, the rest of the portfolios, I am really feeling good about them and where we are right now. So there's nothing that's flashing red, et cetera. I'm feeling good.

Jennifer Demba
Analyst, SunTrust Robinson Humphrey, Inc.

Q

[indiscernible] (03:21:03)

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

Absolutely. Leverage lending book, I feel good about that too. The overall book is a BB+ plus book. About 12% of it is investment grade. It's something, as I said, we spent a lot of time on it., I spend most of my time on that looking at it to make sure that the people that we're lending to, the clients that we're lending to, any of the sponsors that we have that we really understand it. Like I said, it's not a growth portfolio for us. It's not a strategic objective. It's something we do to accommodate our best clients. And that's what we're going to continue to do. We have a limit on it, and we're going stay within that limit and have stayed within that limit. And we recycle out of that. If we see someone who isn't a client that isn't pulling their weight or a sponsor, let's step away from them. And we're going to continue – as I said continue to do that going forward.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

[ph] Yes, Tom. (03:21:56)

Q

I'm struggling a little bit with the symmetry of the NIM guidance, meaning that right now you're roughly at about – or last quarter, you're roughly at about 3.55% NIM. And in the upside case, you're at 3.7%; downside case, you're at 3.4% so basically 15 basis points either way. And if I look at the underlying assumptions, your upside case kind of has 50 bps I think or 50 bps of rate hikes, a little less than that in the long end but your downside case is much more dramatic on rates going down to zero. And I think over 100 basis points on the 10 years. So I would think you would see more NIM pressure in that scenario. So I guess I'm trying to understand what I'm missing in terms of how you're able to maintain a 3.4% NIM. I would guess part of it's hedging, but still seems like it's pretty resilient.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Well, key drivers. So let me talk about both of those and, Deron, you can jump in here as well, but on the upper end, our goal was not to try to [ph] top tick (03:22:58) our margin with kind of – and the 3.70% was picked because we think at that level we can generate the kind of return that our shareholders would expect. If in fact the rates continue to go higher than we thought over that 3%, we wouldn't participate to the level somebody else might because we've put in receive fixed swaps as a mechanism to protect us on the downside.

The reason we're at that 3.40% are a couple of things. One is just a natural where our deposit book is. That's a key driver there. But it's also the impact of our interest rate swaps and floors and the prices that we [ph] struck it (03:23:38) to help bolster that 3.4%. So it's where we picked it, and we picked that because at that level, we think we can still, based on other adjustments we can make on our business model, generate the kind of returns that our shareholders would expect even in a down rate scenario. Anything else to add?

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

I think that's well said. I think the only thing I would add is the asymmetry is really driven by the floors. The floors helped protect us in an extreme declining rate environment, and so it helps protect the lower end there. The upper end really is driven by – if we get additional tightenings and the rate curve pushes closer to 3%, that's moderately helpful. But we also think deposit betas begin to accelerate in that environment. So there is a bit of a dampening effect as to each incremental tightening and what it's worth to us I think.

Q

I guess so, to summarize though, you feel like you have a pretty good line of sight on the 3.4% if rates really...

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

We do. And the other element that I would just add to that is that's not all just interest rate risk that drives us down to 3.4%. If you think about the environment that produces a declining rate environment, it's one in which likely a recession and credit costs are rising, you're carrying nonearning assets in the form of non-performers on the balance sheet, so that margin is incorporating all of the credit impacts as well.

Christopher William Marinac
Analyst, FIG Partners LLC

Q

Chris Marinac at FIG Partners. I was curious for David or for Barb about CECL and the impact there. And are we at a point where we should think about any change to reserves as kind of looking at reserves and capital together relative to your low level of problems?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So I'll start. So we've done an awful lot of work on CECL. We're well prepared for the implementation. There's still some uncertainty as to what's going to happen with FASB and the regulators are waiting to see what they're going to do. But we're doing two things. One, we're approaching this as a [ph] 1/1/2020 (03:25:45) we're ready to go. We're running parallel this quarter.

Sometime in the second quarter, we're probably going to provide some guidance. We're not prepared to do that just yet today. I know you want it, but we're not ready. We'll be able to – CECL day one is not the issue to us. It's day two. It's the impact to the business model for certain long-dated assets like mortgage. What's that going to mean from a pricing standpoint? I do think people will begin to look at both the reserves and capital as the buffer to absorb losses going forward. But the regulators are still working through what it means to them.

C. Matthew Lusco
Chief Risk Officer & Senior Executive Vice President, Regions Financial Corp.

A

The other thing I'll say about that is Barb referenced our business risk committees and we're taking the data that's coming out of our CECL work today and really feeding that in for the businesses to really kind of go back and challenge the risk-adjusted returns in that environment as well too.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. I'll add one thing. In April, the FASB's supposed to be coming back to tell us whether they'll make any adjustments based on the whitepaper that some 21 of us signed. We're hopeful that they'll make some change there that could help, in particular from day two. Ken.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. Okay. Great. Sorry.

Ken Usdin
Analyst, Jefferies LLC

Q

Great. Hi. Ken Usdin from Jefferies. Two questions on loans and, John, you mentioned at the beginning that you don't have to grow a lot to generate the type of returns and just if you can elaborate a little bit on the low-single digit core. Number one, this year you had a great year and start to – or end, I should say, to period end loans just the context of just the economy as you see going from here and any changes to the loan demand outlook would be great.

And then, the second question is just the indirect auto runoff, could you give us an understanding of both the third-party exit and the indirect just what the pace of runoff is expected to be and presuming that's inside Barb's charge-off guidance as well? Thanks.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So I'll start with it. And so we got some $3 billion of loans between both the indirect and then the third party, and you'll see that that's about a two-and-a-half year duration, Ken, that you'll see that running out, if that's how we choose to let it go. From a loan growth standpoint, I'll start. Loan growth we think is predicated on the environment that we're going into. There's a little bit of uncertainty with regards to GDP. It's a little slower 2.5% versus roughly 3% we had this past year.

We had a good finish. As we think about the year, it's really not just about growth but is it the right kind of growth for us? And so we aren't about just growing the book if we want the right opportunities to grow. We think that we don't need a lot of growth. We need some but we don't need a lot to be able to make the kind of net income and return our shareholders are expecting.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. I said earlier [ph] we don't want growth we're (03:29:04) with the economy maybe plus a little, it's a time to be cautious we think and selective. We talked a lot about client selectivity today. Our growth in the fourth quarter was broad-based across lots of different industry sectors within commercial and Corporate Banking primarily and pipelines were awfully full. We entered the year with softer pipelines because we had such a full fourth quarter but, obviously, that benefit helps carry us into the first and second quarter of this year.

So and we'll continue to focus on client selectivity, sound underwriting and making good decisions, maintaining diversity across our businesses and taking advantage of the opportunities that we get. And again, we think we can deliver these results with that low-single-digit loan growth.

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

And I'd make one additional comment on the indirect portfolio and that is we did not exit it because of loss rates. Our loss rates of our indirect portfolio were doing very well. It was because of the risk-adjusted returns.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Right. Yes, Marty.

Marty Mosby
Analyst, Vining Sparks IBG LP

Q

So, Barbara, question for you then one for David. Appreciate all the work you've done in the last decade. I tell you working with you and watching you pull the portfolio for what it was to what it is now is probably one of the hidden things of Regions, [ph] the gems (03:30:26) that will play out over the next 5 or 10 years. So very significant amount of improvement that you've been able to accomplish. What I wanted to ask you was, when you think about all of the AI and all of the complexity that you've put into managing the loan portfolio amount, how do you make sure you get the personal review, touch, feel, you don't lose all that because we have so many systems now looking at all these loans?

Because the thing that threw us off when we were at First Horizon was we had these computers, but then we just programmed them and made mistakes. So how do we make sure that we have that eyes on the loans and in the markets as well as all the complexity of the computers that help us right now?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

Well, you can't just turn over everything you do to a computer. A computer is a great aid, but you absolutely need the human subject matter expertise. And that's what we're committed to. We're committed to making sure that we're delivering to our customer that expertise.

And remember it's not just about the loans when we talk to our customers. We're talking to our customers about that full relationship. We're talking to them about what they need to do for investment purposes, deposits, et cetera and that's not something a computer can do. And that's why, again, we are committed to the model that we have today with great bankers and great markets delivering great products. And yes, AI and all of those other tools will assist us, but they're not going to replace it.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Marty, the other thing I'd add to that is the fact that we reorganized the risk team this year more closely aligned around the businesses. So we've got business unit chief risk officers, that are really intimately involved with the strategy, the development to provide real-time effective challenge and to kind of stress test the assumptions that are in there. So they're really very, very much – second line's very much in touch with the plan and with the business plan and kind of can help really understand as well as emerging risk indicators as well too. So we've got people embedded within businesses also.

Martha Raber
Executive Vice President & Head-Financial Risk, Regions Financial Corp.

A

[indiscernible] (03:32:31)

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Martha, stand please.

Martha Raber
Executive Vice President & Head-Financial Risk, Regions Financial Corp.

A

In addition to what both Barb and what Matt had to say, AI is great. All the analytical tools are great. It provides wonderful data analytics and insights that we mind and think about but adding to what they said, we also have our business risk committees and those are led, as you heard earlier, by our line of business heads as well as our risk officers and they are talking about our clients and really mining and understanding what's going on. And so when you add in the data, the analytics and the boots on the street that know our clients, know what's going on real time with them gives us a very competitive advantage.

Q

And, David?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Oh, I'm sorry.

Q

Told you we were going to give you a hard one. I gave you an easier one this year. When you're looking at your ability because you had the highest grant of buying back shares at the same time that you had the gift of the stock price dropping substantially, which is interesting to watch Regions perform because it goes down hard because of all the past history, not thinking of the new history that you're going to create. But then it doesn't bounce quite as much. How much of benefit did you actually get out of December and January when you had so much ammunition to buy back capital and was in a perfect period of time to be actually able to do that?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Well, I'm sad to report to you that not as much as we wanted because we had executed our plans. When we lay out our CCAR plan, we had to lay out the quarter in which we're going to execute the trades and we're not about timing the market with that. Our expectation is that the market will never push your price to true fair value with excess capital just mathematically.

So when a new quarter – we would open up the window after our earnings release and buy back as fast as we can. We had exhausted our buyback for the quarter before that happened. As a matter of fact in the third quarter, where we bought back – now you've seen how much we had front-loaded it, it would have been nice to have that in December. Unfortunately, we didn't.

So that being said, we still think it was the right thing to do. We need to get our capital optimized. We're 9.8% today. We're going to 9.5%. So we have – that's roughly $300 million, not counting what we'll generate. And we buy back those as soon as we can in that time. And unfortunately, we didn't get us to take advantage of that as much as we would've hoped.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Betsy.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. One for Barb and two for David. Barb, I think you mentioned the 40 to 65 basis point NCO outlook. That's with the GDP forecast in the base case of a slowing GDP environment I'm expecting. Can you give us a sense as to what those ranges go to in the better outcome on the [ph] bulk case (03:35:45) that you've outlined for rates as well as for the barricades, just give us a sense of what those ranges are.

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

Yeah, we've said that for the 2019 year, our expectation is 40 to 50 basis points so I would expect if we don't have a downturn in the economy, it would stay in that level. As you said, we said 40 to 65 basis points over a three-year period. One of the things we've done we just didn't pull that number out of the air. We actually took our numbers random through our models, stress tested them and said what would resection look like on those numbers. And that's why I feel really comfortable sitting here saying to you the 40 to 65 basis points and again, without a recession probably 40 to 50 basis points.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. So that 40 to 65 basis points is more of the bear case that David outlined of...

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

That's right.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then, David, just two for you, one on the NIM outlook, current environment persists. It sounds like you're saying that – with the forward curve, you've got the current NIMs hanging out there in the next couple of years. Are you suggesting that the cost of the swaps is roughly equal to the benefit of the forward rolls on the $13 billion, is that?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

That's right.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Sure. And then lastly on the outlook for operating efficiency and expense improvements, last three years came with the lower staffing at 12%, and the lower square footage of 11%. Is that the same kind of run rates that you're looking for over the next three years or will the efficiency improvements be – be tilted to one area or is there something else that you're going to be pulling from?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. You should not expect to see the reduction in the labor force to the extent you saw it this past year. That being said, we'll have fewer people three years out than we have today. If you're not controlling head count, it's our number one cost is 55% of our expense base. So we have pretty good controls over that. Every owner of people knows what their approved head count number is and the only way you can get more than that is you have to go through a lot of rigor to get there. And a few of us sit on a committee that won't allow it unless it's really good – good reason to do that. An investment to generate revenue would be one.

We have to continue to work on our facilities. You'll see us continue to shrink our square footage. You saw John put up about 700,000 square feet each year for the next three years. We'll reduce – Brett Couch is in here that runs procurement and we're going to be working really hard on demand management. So not having to pull through as many consultants as people think they need, it's all areas, Betsy, of being able to reduce cost or at least stabilize it so that we cover our inflation and our investments this year we're going to keep our expenses relatively stable.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Thanks.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yes. Mike?

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Hi, can I ask a question of the board, if anyone's from I guess the audit, risk, comp, governance committees or the lead director if I can ask a question from one of them? And thank you for bringing them here.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

We have several here and sure, please go ahead. Just don't do anything to get me fired today [indiscernible] (03:39:13).

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Let's go at the lead director. I guess it's Charles McCrary.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yes.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Oh okay. So I think you have a tough job, right, with merger or no merger. And I think we heard today, you guys are fine with no merger. Don't disrupt the momentum is I think what we heard. You make your three-year targets. You have tech benefits ahead. You've efficiency benefits ahead, less head count, less real estate and you raised your ROE target, so all good. Let's stay on this course, I think, is what we heard today.

The merger argument though would be don't delay. Maybe you have a BB&T and SunTrust moment. Maybe bigger is better. Maybe you can avoid some costs. Maybe there's benefits of scale when you're larger. Maybe you're in the best position of strength you're going to be right now. And don't forget the politics with the presidential election next year. You might not be allowed to do a big merger depending on how things play out. So on the one hand, you hear from your management, no merger; on the other hand, you can have visits maybe from 10 investment bankers who present to the board and say do a merger now. How do you reconcile those two different thoughts?

Charles D. McCrary
Independent Chairman, Regions Financial Corp.

A

I know there's a question in there. [ph] Mikey (03:40:31), I mean you're asking the question that the board ask itself and the management continuously. The board understands our obligation to look at all options regardless of what they are to present, provide long-term benefit for the shareholder. However, having said that, we are very comfortable with the strategic direction that management has laid out. We think it's the right direction. That does not mean that we won't continually question.

In fact, with all the smartest people in the room, you need to know that these people have heard all of these questions before and makes me feel good that the board has asked the right questions. We will evaluate next week, next month. It's a continuous process. And I don't have the crystal ball of the right answer, but be assured that we know what we need to do, that is maintain an open mind and we're confident with what they're doing so far.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

And just one follow-up, after the BB&T and SunTrust merger, what was the reaction of the board and under what circumstances would you say we need to pivot our thinking a little more? Thank you.

Charles D. McCrary
Independent Chairman, Regions Financial Corp.

A

Well, we've looked at everything. We continue to look at everything. It's an ongoing process and if the numbers work, if it comes out financially we think it's the right thing to do long-term for the shareholder, that's what we'll do. But to this point, we're confident that this strategy can beat the other strategy. Thank you.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Mike, I'd just to add to that. We were in the midst of a previously scheduled board meeting when the announcement was made at 6:00 AM on Thursday morning. My phone started blowing up. And as I said to somebody earlier, I had to sort of scroll wants to see. I thought it was fake news. I tell you.

And so the board appropriately wanted an explanation, our understanding, and has challenged us to provide them with perspective on just the M&A environment, on that particular transaction at our meeting in April, which is something we routinely do anyway. So we'll have a good discussion about it, I'm sure. Any other questions? Yes.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Gerard Cassidy, RBC Capital Markets. Barb, maybe you can share with us, you have given us guidance on the net charge-offs which relative to the last economic downturn obviously are much below where you guys had net charge-offs. But prior to the crisis, Regions typically had charge-offs at this level that you've outlined for the future. Aside from the de-risking of the balance sheet and possibly the merger between AmSouth and Regions at the time, what other changes have been made to reassure us that the charge-off levels will stay closer to your guidance than filter back closer to what they were in 2008, 2009?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

People, process, and technology would be the three short answers. And primarily on the people side, it's not about we have a second line that being risk and they're in charge of the risk. I think you heard from all of my business partners today, every one of them talked about risk – unprompted by the way – talked about risk and that it's critical and it's paramount. They understand the risk in their book and they manage the risk at that first line. And second line comes in and we help them with it. So again, critically important.

Our processes as well, is we have much better processes. Our concentration limits that we have in the past, they were good. But these weren't granular enough, as I said. And like I said now, we have over 100 of them in place, different concentration limits, and it's not a matter of when you hit a concentration limit, we all talk about it and say let's move it up. No, a limit is a limit is a limit. And we live within that and we redeploy our capital.

Same thing with the technology piece as well, which is helping us as well with the early warning indicators and all those things that we look at in early warning indicators, we look at all of our different subproducts, et cetera. We have early warning indicators for each of them, and we're also in the midst of enhancing all of those early warning indicators because – and I'll use an example that David likes to talk about.

If an earthquake happens across the ocean and a tsunami rises up, we want to be there when it first happens. We don't want to wait until we start to see the crest of the waves coming at us and saying, my, there's something we should do. And that's the reason that we've made so many changes, as I said, with the people side of it in particular as well as the technology and our processes. We're never going there again, Gerard, ever. We are much better risk people now than we ever have been. And we're going to be much better risk people as we continue to go forward.

Gerard Cassidy Q

Analyst, RBC Capital Markets LLC

As a follow-up to that, you mentioned casual or fast casual, you're just having an increased focus on it. In new originations today, where are you seeing greater underwriting risk that you're passing on, but you're seeing maybe smaller banks be more aggressive or the nonbanks? What areas and is it more loan to values on the commercial real estate side or is it debt levels in a noncommercial real estate situation? Thank you.

Barbara I. Godin A

Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

Thank you, Gerard. [indiscernible] (03:46:13) pass it over to Martha Raber. She is in charge of our financial risk and she's dealing with this on a very ongoing and daily basis, and I'm going to have her give you some color and insight on that.

Martha Raber A

Executive Vice President & Head-Financial Risk, Regions Financial Corp.

Thank you, Barb. So you heard from Ronnie earlier and actually all of the business managers that we're seeing really good pull-through rates. I think, Ronnie, it's 80% for fourth quarter. But what we are seeing, we are being very diligent and we are passing on those opportunities that we don't think meet our risk profile and we're letting them go to the competition.

And to the comment that Barb made, some of that is in the real estate. There are some markets that we see that are overheating. We have decided to change our advance limits and cycle out of that. We have done that in other asset classes. I think there was a question earlier around the early warning signals and as we see something flash yellow, we're taking appropriate actions to pull back.

John M. Turner, Jr. A

President, Chief Executive Officer & Director, Regions Financial Corp.

We got time for one more question. John?

John Pancari
Analyst, Evercore ISI

Q

Thank you. Your charge-off guidance that you gave at your 2015 Investor Day was 25 to 35 basis points. You broke that level in 2018; you're at 40 basis points for the full year 2018. Can you just talk about what drove that? Was it the business mix, the focus of consumer and why we would think that there would be any upside risk to the charge-off quantification or the outlook that you're giving now?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

Sure, you know back in 2015 when we gave the charge-off guidance, that was prior to the great collapse in energy prices and what happened is a year later, we looked at it and said, with energy, we increased that guidance a little bit. Now as we talk about the 40 to 50 basis point range for the coming years as well as then 40 to 65 basis point over the three-year period, that's premised on the mix of business that we have as well.

So while you might see that our charge-offs were in that 40 basis point range, what you have to do is you have to match it against what the yields are because a lot of this, we talked about consumer unsecured. It's a much higher yielding product. Yes, it does have some increased losses, but when you look at that overall relationship, it absolutely makes sense for us to do that. So we will be staying in that 40 to 65 basis point range as I've said over the next three years. I don't want to prognosticate beyond that, but there's no reason that we shouldn't be – I'll use the word a [ph] Steady Eddy (03:48:59) in that net charge-off range going forward.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

John, to answer your question and maybe, David, help me here. Just more specifically though with respect to the 25 to 30 basis point, there was a change in mix of business with an increase in the consumer and direct portfolio. And the way we were accounting for that at one time was on a net basis, we began to record the charge-offs in 2016 or 2017...

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

2016.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

...on a gross basis, so that resulted in an increase in consumer charge-offs, which drove that number a bit higher. I get that right?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah.

C. Matthew Lusco
Chief Risk Officer & Senior Executive Vice President, Regions Financial Corp.

A

Yeah.

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer & Chief Credit Officer, Regions Financial Corp.

A

Right. You did well.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

Okay. Good. All right. Thank you all so much for your time today. I hope you understand that we have built our plans around our unique strengths and we're committed to continuously improve our business. Enabled with innovation and technology, we think we can deliver some outstanding results to our shareholders. We're very committed to our business. We're committed to focusing on the fundamentals, focusing on our customers and doing the things that we have been doing over the last few years to build a really sound and solid business. We're proud of our accomplishments. I hope you gathered that as you heard us today, and we have a lot of confidence in our ability to continue to deliver on the results that we shared with you.

So I hope you'll stay with us. We have lunch planned and we'll all be around and happy to answer any additional questions you have. Again, thank you for your time and thank you for your interest.